# THE EXPORT WORKING CAPITAL PROGRAM



## JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT PROGRAMS

AND THE

SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES,

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

WASHINGTON, DC, SEPTEMBER 7, 1995

Printed for the use of the Committee on Small Business

**Serial No. 104–49**



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# THE EXPORT WORKING CAPITAL PROGRAM

THURSDAY, SEPTEMBER 7, 1995

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON GOVERNMENT PROGRAMS JOINT WITH THE SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES, OF THE COMMITTEE ON SMALL BUSINESS
*Washington, DC.*

The subcommittees met, pursuant to notice, at 10 a.m., in room 2359–A, Rayburn House Office Building, Hon. Peter G. Torkildsen (Chairman of the Subcommittee on Government Programs) and the Hon. Donald A. Manzullo, (Chairman of the Subcommittee on Procurement, Exports, and Business Opportunities) presiding.

Chairman TORKILDSEN. The subcommittee will come to order. On August 4, the Small Business Committee markedup H.R. 2150, the Small Business Credit Efficiency Act of 1995, with the intent of decreasing the subsidy rate for the Small Business Administration's (SBA) 7(a) loan program. The legislation lowers the guarantee rate to 80 percent for all loans below $100,000 and 75 percent for all loans above $100,000.

During the markup, the full committee ranking minority member, Mr. LaFalce, who's a witness here for this hearing, offered, but graciously withdrew, an amendment allowing the SBA to provide a 90 percent guarantee for revolving line of credit for export purposes to the maximum of 3 years for repayment, regardless of the loan amount.

This is a joint hearing of the Small Business Subcommittee on Government Programs and the Subcommittee on Procurement, Exports and Business Opportunities. The purpose of today's hearing is to examine the SBA's partnership with the Export-Import, or Eximbank, through the Export Working Capital Program.

It is this panel's intention to explore the implications of Mr. LaFalce's proposed amendment, especially as compared with loan guarantee rates provided by the Eximbank, and to review the progress of the harmonization of export financing programs between the two agencies.

The Export Working Capital Program is a product of the 1993 Trade Promotion Coordinating Committee recommendations regarding export financing. On October 1, 1994, the Eximbank and the SBA harmonized their respective pre-export working capital programs. An agreement was made which allows the SBA to process loans under the amount of $750,000 and the Eximbank to process loans above that amount.

There are a number of arguments, both for and against, retaining the 90 percent guarantee rate for export purposes. It is my hope that through testimony from and discussion with our distinguished witnesses that we will address these issues and make a solid recommendation to the full committee as to how to proceed.

With that, I will yield to my friend and colleague, Chairman Manzullo for any opening statement he may wish to make.

[Chairman Torkildsen's statement may be found in the appendix.]

Chairman MANZULLO. Thank you, Mr. Chairman. Rather than read my opening statement, which parrots some of the things that you've said, let me, first of all, thank the witnesses in advance for coming here to testify. I would yield to Mr. LaFalce.

[Chairman Manzullo's statement may be found in the appendix.]

Mr. LAFALCE. I thank, both, Chairman Torkildsen and Chairman Manzullo, very, very much for having this joint hearing. I think you both have stated the issues rather succinctly and there's no reason to restate it. It seems to me that we ought to have an harmonization of the programs.

It also seems to me that the Export Working Capital Program is a vital program if we're going to enhance our exports, especially our small business exports.

It seems clear to me, too, that the SBA is moving vigorously in that direction, enhancing exports, hopefully, by utilizing the Working Capital Program.

In less than 1 year, in fiscal 1995, the SBA has approved 132 export working capital transactions worth $44.3 million. That's nearly double all the transactions for fiscal year 1994, that totaled 77 transactions for $27.4 million. We'll let the witnesses speak for themselves.

When I withdrew the amendment during the committee markup, it was with two thoughts in mind. As Chairman Meyers stated, I would have ample opportunity to offer the amendment on the floor and also that she hoped that consensus would emerge at the hearing that we had after withdrawal of my amendment.

I may be hindered in the first objective, because I can understand Mrs. Meyers is considering bringing the bill up on the suspension calendar. Therefore, it would take unanimous consent to offer that amendment to it. That's not impossible.

It's been difficult. With respect to development of consensus, it depends on what you mean by consensus, of course, but in that I'm dependent upon the good will of the committee on both sides, if consensus is developed, based upon, hopefully, an open mind to the testimony of the witnesses.

With that, I will enjoy hearing today's panel to see if the witnesses have any consensus.

[Mr. LaFalce's statement may be found in the appendix.]

Chairman TORKILDSEN. Thank you, Mr. LaFalce.

Now, I will turn to our panel of witnesses, introduce all of them first and then ask for their testimony. First, Ms. JayEtta Hecker, is the Director of the International Trade, Finance, and Competitiveness Office at the General Accounting Office; Cassandra Pulley is the Deputy Administrator of the U.S. Small Business Administration; Martin A. Kamarck is the vice chairman and chief operating officer of the Eximbank at the United States; and William C. Cummins is the group vice president of South Trust Bank of Alabama and is the Cochairman of the Small Business Export Finance Committee of the Banker's Association for Foreign Trade.

The subcommittees welcome all of you today and we'd like to start with Ms. Hecker for her testimony.

## TESTIMONY OF JAYETTA HECKER, DIRECTOR, INTERNATIONAL TRADE, FINANCE AND COMPETITIVENESS, GENERAL ACCOUNTING OFFICE

Ms. HECKER. Thank you, Mr. Chairmen. I want to thank you for the opportunity to be here today to address SBA's role in meeting the exports needs of small business, in light of the cut in SBA resources and the proposal to reduce the coverage provided by 7(a) loans.

Today, I will talk about three things: First, kind of the background of SBA's moving out on providing export working capital assistance for small business; second, I'll provide some comments on the proposal to lower the guaranteed subsidy; and finally, and perhaps it's a bit tangential for today, we have a few ideas if the Congress is interested, in other ways to try to minimize the potential adverse effects of reducing the resources available to the Export Working Capital Program and to better leverage those resources.

On the first point, I think it's almost ironic that there is a call to cut the resources available for Export Working Capital precisely at the time when the SBA has finally moved aggressively to provide such assistance to small business.

This program has been authorized for over 15 years. The first 10 years of the program there was an average of about 16 guarantees a year. In the early 90's, some improvements were made and it went up to about 80 guarantees provided per year. As Mr. LaFalce has said, the number of guarantees has skyrocketed in the 1995 period. Furthermore, the projections are that the number of guarantees will actually triple over the 1994 period.

So there is clearly a new commitment by the SBA to move aggressively in this area. That commitment has been demonstrated in issuance of new guidelines, ambitious goals for all of their staff in this area, the aggressive effort to progress on harmonization, the effort to utilize these new one-stop shops, also, new cofinancing agreements with States.

On the proposal to lower the guaranteed subsidy, we think it clearly presents special and unique problems for export assistance. The export programs have different objectives, have a different time horizon, and have fewer banks participating in that side of the program.

In general, the banks have higher risks and lower profits in this type of business than other 7(a) loans, and importantly, there's no secondary market. So, export guarantees are very distinctive and we think there is an argument that clearly can be made for different treatment of export credit guarantee, relative to the rest of 7(a) Programs. So, ironically, the very effect of trying to lower the guarantee to better leverage the resources could, in fact, result in a total reduction of the numbers of export working capital guarantees provided for small businesses.

The other remarks that we have are, perhaps, less on point, but we think it's interesting to look at the potential to increase the fees charged to the lenders. That has not been harmonized and there's some interesting differences there. In addition, we think there are opportunities to better leverage State resources.

There are a number of States active in the area and we think there's opportunities for SBA to increase its role as a catalyst in increasing State financing for small business and other export finance. Finally, there's an organizational change, really, on the table with the recommendation by the TPCC for an evaluation of the progress of harmonization. We think the Congress might be interested in the scope and quality of that study, because it really should provide some more detail and analysis on the relative performance of the continued overlap by SBA and Eximbank in providing export financing assistance for small business.

That concludes my statement. I'd be very happy to answer any questions.

[Ms. Hecker's statement may be found in the appendix.]

Chairman TORKILDSEN. Thank you, Ms. Hecker. We'll hold questions until after all witnesses have testified. Now, we'd like to ask Ms. Pulley for her testimony.

## TESTIMONY OF CASSANDRA PULLEY, DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Ms. PULLEY. Thank you, Chairman Torkildsen and Chairman Manzullo. I'd like to submit my written testimony for the record and briefly provide some comments, if I may, in summary.

Chairman TORKILDSEN. Without objection, your testimony and all witnesses' testimony will be printed in full, and a summary is appreciated.

Ms. PULLEY. I'm pleased to talk to you this morning, briefly, about a program that, although it's still in its infancy, is, I believe, a resounding success. The Export Working Capital Program, which was borne of the efforts of the Trade Promotion Coordinating Committee, shows what can happen when two Federal agencies join forces to meet the needs of the small business community. As Mr. LaFalce mentioned, during the 8-year period between fiscal 1983 and 1990, SBA approved 161 export working capital guarantees, worth about $45 million. In the 11-month period of fiscal 1995, we have approved 156 loan guarantees worth nearly $52 million, an increase, even since your figures, Mr. LaFalce.

Currently, we have 149 banks approved to participate in this program and we have cooperative agreements with three States: California, Florida, and Kansas, which will enable us to co-guarantee State government sponsored export trade transactions for small businesses.

Among all Government agencies, SBA is uniquely qualified to provide an incentive to commercial lenders to provide export financing assistance to small businesses. Not only do we have a delivery system that includes our nationwide network of branches and district offices, we have over 900 small business development centers throughout the country, we have a cadre of 13,000 SCORE volunteers who are available to provide the support and assistance that small businesses need to structure and to package export transactions.

In addition to that, under the auspices of the Trade Promotion Coordinating Committee, we've trained over 300 of our employees in transaction-based financing, as opposed to term financing, which is SBA's traditional method of providing support and assistance.

Some of these employees will be located in, yet, another delivery system that we have, the U.S. Export Assistance Centers, nine of which are already in place. Six more are planned by the end of this calendar year.

As I mentioned earlier, although this program is still in its infancy, and in spite of its success, there is still a lot of room for improvement. For example, in transaction financing, speedy turnaround is crucial, particularly because of the time sensitivity of these transactions. Recognizing this, we're working very closely with Mr. Cummins of BAFT to find ways to continue to improve and streamline both the program and the process.

As part of this effort, we are delegating loan approval authority to our staff in the USEAC's, once they become fully operational, and we're negotiating with other States to develop cooperative arrangements so that we can do co-financing.

There's been some concern expressed about the 90 percent guarantee rate and the impact it will have on the agency's subsidy rate. Even if the Export Working Capital Program doubles in fiscal year 1996, it will still represent less than 1 percent of the total 7(a) loan portfolio. As a result, the guarantee percentage will not have an impact on the subsidy rate.

The guarantee percentage is, however, necessary to support commercial lenders' efforts to provide export financing to small businesses. As Ms. Hecker mentioned, because of the short-term nature of this loan financing, it's not possible for the banks to recover their costs on these smaller transactions.

Also as mentioned by Ms. Hecker, the efforts at harmonization between Eximbank and SBA have been very successful, as demonstrated by the marked increase in the number of export working capital guarantees that we have been providing. That means small businesses are increasing their participation in the global economy.

The need for this program is also voiced by the small business community, it was one of the recommendations for the recent White House Conference on Small Business. The SBA believes that this program is an important tool in our ability to provide support and assistance to the fastest growing segment of the American economy which is, in fact, small business. Like Ms. Hecker, I'm available for any questions.

[Ms. Pulley's statement may be found in the appendix.]

Chairman TORKILDSEN. Thank you for your testimony. I'd like to applaud both of our first witnesses for their brevity in the summary. It's very appreciated by all members of the subcommittee. I'd like to turn to Mr. Kamarck for his testimony.

## TESTIMONY OF MARTIN A. KAMARCK, VICE CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. KAMARCK. Duly noted, Mr. Chairman. Chairman Manzullo, Chairman Torkildsen, members of the subcommittee and full committee, I'm delighted to be able to appear today to attest to our progress in the partnership among Eximbank, SBA and the Nation's lenders to small business in a harmonized export working capital program.

Small business is a top priority for the administration of Chairman Ken Brody and myself at Eximbank. We are pleased and proud of our success to date under the leadership of our director, Maria Haley, who is responsible for our small business programs. A very important part of that initiative for us has been this partnership in a harmonized program.

I will talk about three key points as to why this program is important and why a seamless partnership is important. First, the need for the program. Second, the problem that the program is intended to solve. Third, the importance, particularly, of SBA's participation and full partnership in a seamless harmonized program for the success of solving that problem and meeting the need.

With respect to the need for the program, make no mistake, this is a program that is targeted quite specifically to the needs of the small business exporter. Eximbank is not constrained as SBA is with respect to the size of the loans that can be supported or the size of the businesses that can benefit from the program. Yet, consistently, year after year, between 90 and 95 percent of the usage of our program is by SBA-qualified small businesses.

The reason for that is quite simple. To get into exporting, for a business, exporting represents the good news of expanded opportunity for increased sales. The bad news is that there's a commensurate need for increased working capital. If you're going to significantly increase your sales, there's going to be a need for more inventory, more workers, for a financing of the accounts receivables that are generated. Yet, those are exactly the kinds of assets that are most difficult for commercial banks to get their arms around and to accept as part of a lending base for a working capital program, all the more so for small businesses.

It is exactly that gap in the availability of working capital in the market place that this program is quite specifically targeted to fill.

Second of all, the problem that it's intended to solve is that of lending to small business generally and against these kinds of assets specifically by commercial banks. Bill Cummins, I'm sure, can speak more authoritatively about this.

But if you think about what a lender looks at when it looks at a potential line of business, because they don't look at one transaction after another, they're thinking about committing resources to support a line of business. They're looking at their fixed cost, which will vary from bank to bank but will be the same allocation to a small loan, as to a big loan, or a small business or a big business; to their cost of funds, which will vary, and the market rates of interest that they can charge; which will give them a positive or negative spread. All of those things are determined, pretty much, by the cost structure of the bank and by the market place.

But here, we have an additional factor, which is that there's also the risk adjusted cost of their capital. When they are putting an asset on their books and they're making a loan, how risky is it? How much of their capital is at risk in that loan? If you're talking about decreasing the coverage of a Government guarantee to support a loan to a small business in this context, you're talking about increasing the risk weighing under the regulatory scheme for a bank, all in for the entire 100 percent loan, from 28 percent to 36 percent. That's a 28 percent increase in the cost to the bank of booking this particular loan.

I would suggest to you that at the margin, and the important margin, of promoting exports by small businesses, which is where the jobs are created, which is where the technology is developed, which is where the future of our Nation's economy rests, that 28 percent increase in cost for a bank looking at whether or not they're going to commit the resources to support a small business lending program under a Government auspices can be the difference between success or failure.

Finally, the importance of SBA to making this harmonized program work, the importance of this is the difference between being in Washington and being on Main Street. Eximbank has 450, now 440, employees, most of them in Washington, DC. We have a limited administrative budget, and we are oriented toward processing our transactions.

SBA has a mission of helping small business. SBA has the SCORE volunteers, the Small Business Development Centers and their district offices across the country. They are there to help small businesses. Small businesses know those people, know where to find them and they have the delivery mechanism for reaching out and dealing with the smaller businesses in the country. If we disadvantage SBA in terms of their full participation in this partnership of a harmonized program, we're also making it much less effective for partnership with the banks and for outreach to the small businesses that need this program. By way of history, this is not a new problem that we have just discovered and started to work on solving. This has been perceived as a problem in a whole in the coverage of Government programs for the benefit of small business exporters for quite some time.

Chairman John Macomber, the previous chairman of Eximbank under the last administration, noted this problem and took steps to try and solve it in 1992, unilaterally, on the part of Eximbank, by raising the Eximbank working capital guarantee percentage to 100 percent.

Interestingly enough, it didn't make very much of a difference in the volume that we saw as a result. Why? We looked into this when we came into office and said this should have prompted an increase in availability of the program. The answer was that small businesses and banks found the program still confusing, complicated and not user friendly.

We, working hand-in-hand with SBA have tried very hard to solve that problem. We believe we've succeeded. We're undertaking, right now, a study to do a program review. I will go out on a limb and tell you that I predict that that study will show that we are being very successful. It may well lead to ways in which we can improve. But at this point, when we're seeing real progress for the first time in years, in usage of the program, Eximbank's and SBA's, it would be a mistake, I believe, to backtrack and to undo one of the seams in the web we've woven in the partnership between the lenders, Eximbank and SBA. Thank you.

[Mr. Kamarck's statement may be found in the appendix.]

Chairman TORKILDSEN. Thank you for your testimony. Mr. Cummins.

**TESTIMONY OF WILLIAM C. CUMMINS, BANKER'S ASSOCIATION ON FOREIGN TRADE [BAFT]**

Mr. CUMMINS. Good morning, respective Chairmen, members of the subcommittees and of the full committee. It's a pleasure to be here in representing the Banker's Association on Foreign Trade, commonly known as BAFT. BAFT is one of the country's oldest financial trade association and our membership includes virtually all U.S. Banks that are active in international banking.

I'm Cochairman of the Small Business Export Finance Committee and our members are very active in both programs that we're speaking of today.

I would like to summarize three key points that I prepared in the written testimony that are of significant concern to the membership of the small business committee at BAFT.

The first concern is the historical perception of the program's instability. For several years leading up to the harmonized SBA Eximbank program in 1994, there was ongoing tinkering with both programs, resulting in an image of these programs as being very unstable, unreliable and simply confusing.

There was the definite risk that once a bank and an exporter entered one of the programs, that the program could be changed in midstream. Keep in mind, that although these guarantees are often issued for one commitment supporting a revolving credit line, the underlying relationships are, in fact, for many years. The assumption is if the exporter performs satisfactorily the credit line will be renewed year, after year, after year. It's important that the programs be there year after year and that the program parameters are consistent. To change the program, yet, again, could serve to rekindle the negative use in the industry of these programs' reliability.

The second concern is the inadvertent competitive advantage we think banks would have that enjoyed delegated authority under the Eximbank Program. With a reduction of the SBA's Program Guarantee, banks which enjoyed delegated authority under the Eximbank program will enjoy an immediate competitive advantage in the market place, as this guarantee is at 90 percent. This disparity will yield an undue edge for these banks and it will be a further disincentive for new banks to enter the field and will certainly discriminate against those companies that are seeking smaller loans under $750,000.

Third, and most importantly, there is the concern of the credit considerations, the credit impact, by reducing the guarantee coverage. Done correctly, small business finance requires a hybrid blend of finance expertise, combining the technical knowledge of international banking cross border payments and understanding the risk of selling overseas, with the seasoned credit skills of asset-based lending.

Quite frankly, there are many banks around the country in many markets who have not developed this hybrid blend of financial expertise yet. So, there is the need for this, if you will, an incubator program for not only the exporter, but for the bankers, as well, as we learn and become accustomed with this growing, but unique area of small business export finance.

Many transactions now done by participating banks would simply not be done with a guarantee of 75 or 80 percent. There are three reasons, I think. One is that many borrowers that we see under this program simply do not have an established track record yet of success and profitability. We often see initial balance sheets that are very leveraged, very undercapitalized.

Second, and again, the collateral for these programs is typically inventory and receivables. Our inventory is usually in transit in route to Saudi Arabia or Hong Kong and our receivable may be coming from Bolivia or Botswana. If you've ever had to liquidate one of these loans in distress you realize the transitory, illusive nature of this collateral.

Third, there's an issue, I think, of culture and experience that most banks approve these loans in a committee process. I wish you could only join me in loan committee and try to explain one of these transactions to a gentleman or a gal who has come up the conventional route in banking, commercial real estate, corporate lending or retail banking. They do not have a clue as to how these transactions should be structured and what the risks actually are. But they do know the SBA and Eximbank, and they do have comfort and confidence that even if they don't understand the credit risk being presented, there is a Government guarantee and they can vote yes to see that the transaction gets done. That is the heart of the issue.

If this enhancement is inadequate these people will vote no on the loan committee. Thank you.

[Mr. Cummins' statement may be found in the appendix.]

Chairman TORKILDSEN. I want to thank all witnesses for their testimony, and I'll start off with two question of my own of Mr. Kamarck.

If the volume didn't change and there was a 100 percent guarantee change to 90, what would lead you to expect there would be a change if the guarantee were reduced to 75 percent?

Mr. KAMARCK. What we found when we asked that question, that is, why didn't the volume change significantly, was that there was resistance, ignorance and confusion in the market place about how our guarantee worked; what one needed to do to apply for it; and what we would do if there were a claim. There was no outreach to the banks and through the banks to the small business community to sell the availability of this program to meet needs.

We have addressed all of those concerns. The study that we will be undertaking shortly will tell us how well we've done. The evidence is, in terms of increased volume, significantly increased volume in both agencies, is that it seems positive. The point is that I don't think that there's a lot more that can be wrung out of those kinds of changes. A more important point is that in doing all that, we brought the guarantee down to 90 percent and sold it to the banks on the thesis that you now have a predictable, dependable partner with a 90 percent guarantee, an enhanced guarantee, a simplified application process and, in Eximbank's case, a qualified delegated authority.

We now go back to them and say well, if you have to do the SBA Program then it will be 80 or 75 percent, we will have substantially undercut, I think, that investment in building the outreach partnership, on which I think our success rests.

Chairman TORKILDSEN. Given the first part of your answer, though, wouldn't that tend to underscore that what the guarantee rate was, was not as important as having people understand, especially for those banks that are not familiar with this particular program, the guarantee portion of debt is resalable on the secondary market. If individuals know in advance what the guarantee percentage is, wouldn't your answer that you just gave in the answer indicate that as much, if not more, of the problem was a lack of understanding of how the program worked and not the specific percentage of guarantee?

Mr. CUMMINS. In the past, Mr. Chairman, there was a good deal of truth to what you said. But in coming up with the 90 percent number, we worked closely with the banks, doing the kind of calculations that I described earlier in terms of where their profitability was and where that cutoff line was that would get them into the program.

Because if we were going to do delegate authority we had to have risk sharing. We could not have 100 percent guarantee. Then the question was how much less than 100 percent could it be. We came down to 90 and SBA came up to 90 because there was a quite conscious and principled decisionmaking that that's where, for the majority of banks, they could do the business profitably.

Chairman TORKILDSEN. Ms. Pulley, earlier this year President Clinton called for making SBA, I believe, "self-financing." I don't know if that was his exact term or not but something along those lines. As we all know, the only two ways to achieve that are to reduce the subsidy rate or increase the fees, or some combination of the two.

If that objective is to be obtained how could this program remain at 90 percent, how can the SBA become self-financing, which if neither the House or the Senate is prepared to reduce the subsidy, how can we get to a self-financing program without changes of that type in programs?

Ms. PULLEY. Mr. Chairman, you're right. The President did recommend that in our budget submission and included a zero subsidy rate for the 7(a) and 504 Programs. What we are proposing to do is a combination of fees and improving our recovery rate as we move forward.

This program, perhaps, has the potential for being self-financing, but I think the important thing to note with this part of it is two things: First of all, it is a very small portion of the 7(a) Program and the guarantee percent itself does not impact the subsidy rate because it is such a small percentage.

The second thing is, this program is a pilot. Recognizing the history of the Export Working Capital Program at SBA, particularly the cumbersomeness, the lack of understanding the program, the lack of high level support in the agency for the program, we have to demonstrate that the Government is a reliable partner to the export lenders. I think that's the most important thing. We have to get a program out there that works for them, that is there when they need it and that works for their customers.

We have made significant progress in 11 months. But we still have the study to undertake on harmonization. We continue to work with BAFT to see if there are ways we can streamline the program to make it friendlier. So, I think that as we move forward with this program and as we institutionalize the Export Working Capital Program, if you will, certainly, there are ways that we can make this small pilot as self-financing as our regular 7(a) Program is going to be.

Chairman TORKILDSEN. For my final question for everyone on the panel: Given the disparity that Mr. Kamarck pointed out in preference to have a higher level of guarantee from Eximbank than you do from SBA, keeping 90 percent for this program, we would have different levels of guarantee for the 7(a) Program overall, versus this, and what would be the effects of telling the small business community that if you want to make compact disk equipment, or something, if you export it we'll give you 100 guarantee than if you sell it to Americans.

Isn't that going to create a distortion in the market place where someone who is producing goods and services domestically is told that they have a lower guarantee rate than if they market their goods and services overseas?

Ms. PULLEY. I think, basically, you have to look at the difference in the programs. The regular 7(a) Program is term financing. It's not transaction financing. So, it's not limited to whether the company just wants to make compact disks. A company can borrow general purpose, long-term financing.

The export working capital program is specifically transaction based and it involves, as Mr. Cummins said, a line of business over a period of time but is related to a specific transaction, so that you can't really equate either the terms, the loans or the guarantees.

You have to really look at the specifics. For a company that wants to make compact disks and sell them in the United States we can give them term financing. But then, and the important thing for us, we can also assist that company that wants to make compact disks and export them to Japan. That's why this program is so important to the SBA as one of the tools in which it provides support and assistance to small business.

Mr. KAMARCK. I, obviously, can't speak to the SBA's administrative point about this as Ms. Pulley has, eloquently. But from the exporter's point of view, in terms of confusion in the market place, when I first came to Eximbank and I looked at this program I said, well, this looks like an anomaly.

This is a program where we are financing exporters instead of exports. Why is that?

The answer was that, in fact, the Working Capital Guarantee Program is a program for financing exports. It is a program for providing working capital for smaller businesses to make specific export sales. It's quite distinguishable from their longer term capital needs. They think about it differently and they structure their balance sheets around it differently. In terms of going to different programs to meet those different needs, I really don't believe it will cause any confusion or problem in the market place.

Mr. CUMMINS. If I may comment, to reiterate that I think your question is not comparing apples to apples. I do believe it's comparing two different types of financing. It would be the C.D. manufacturer requesting financing for building equipment on a term basis, versus requesting short-term financing for inventory and receivables financing.

The former, again, has collateral that is tangible, it's there and it generally has lower risk. Therefore, a lower guarantee percentage will work, I think, in the conventional term financing programs of the SBA. In the short term programs the higher guarantee is prerequisite, due to the lower quality of the collateral, particularly export related inventory and receivables, again, are very transitory, very, very difficult to liquidate in distress situations.

Chairman TORKILDSEN. I'm not sure if, given the answers, perhaps I made my point clear where the differences are.

If there's going to be some type of shift in the market between having a higher guarantee for Eximbank than under this SBA Program, wouldn't there also be a shift in the market if the SBA has two different guarantee rates, one for exports, one for 7(a)?

Now, I understand that the 7(a) Loan Program can be used for other purposes. It's not goods-specific. It's not as targeted or limited as the export program. But do all of you believe that there would not be a shift, there would not be an incentive for individuals to say, well, if I gear for exports—and we're all interested in increasing exports from this country—are you going to see a shift there, and if you do, would you still expect that the program will remain at less than 1 percent of the entire 7(a) Program?

Ms. PULLEY. I don't think, Mr. Chairman, that a 10 percent difference in the guarantee is going to cause a business person to change the nature of their business. Those companies that are exporting, who are interested in exporting, will find this program attractive. For those companies that are not export-ready or are not interested in exporting, a 10 percent guarantee from the Government, for which they'll have to pay, will not really make the difference.

Mr. KAMARCK. But with a lower guarantee percentage those companies that are on the bubble may not get their loan at all. Those that are on the other side of the bubble, so to speak, may get their loan but it's going to be with much tighter credit standards, lower advance rates on the collateral, as an example, and there's no doubt that the pricing will be higher because of the increased risk.

Chairman TORKILDSEN. I have to cut myself off at this point, because I'm over my time. Give the chance to ask questions, turning to the ranking minority member of the full committee, Mr. LaFalce, for questions.

Mr. LAFALCE. I think the hearing, so far, has transformed me from an intellectual advocate of this position to a passionate advocate of this position.

I think if we were to backtrack we would be doing something that's just simply dumb, absolutely dumb. We had a lower guarantee by SBA over the past and it just didn't work. Eximbank had a 100 percent guarantee and it didn't work, for two decidedly different reasons, of course.

SBA had the delivery system but it didn't have an adequate program. Eximbank, you have an adequate program but they didn't have the delivery system. Also, there just was no harmony between them. Let's have an adequate guarantee and let's have an effective delivery.

If you talk to small businesses in small-town America or in a big city in America, they don't know any Eximbank. They don't deal with the Eximbank. They know the SBA and deal with the SBA. But not just the small business community. The banking community.

How many banks are there in America? Only 11,000 or 12,000—very, very few of them have ever dealt with Eximbank. If they have, that was probably a year or 2 or 5 years ago, and the loan officer who handled that deal is no longer with them and they need some kind of reeducation program.

I've been in Congress for a while so I've tried to help businesses in my District. I remember this one very large business that had a potential deal in Brazil. I tried working with the banks in the Greater Buffalo in trying to finance a deal. It wasn't there. It was just an uncomfortable feeling on the part of bankers. Why? Well, for a whole slew of reasons.

It's not that they just didn't understand the financial arrangements all that well, but the uncertainty of what is going on in Brazil, the uncertainty of what is going on in Mexico, the uncertainty about what's going on in Argentina, the uncertainty about what's going on in Hong Kong or wherever it may be, leads a lot of bankers to say well, I'll never, ever be in trouble for the loan I didn't make.

The only way I'll ever get in trouble is for the loan I make, therefore, let me deal with what I know and what I'm comfortable with. We're trying to change this. The SBA and Eximbank, working with BAFT, the Banker's Association on Foreign Trade seems to have arrived at a formula for success, therefore, let's change it. Well, that doesn't make much sense to me.

Will it distort the market place? That's exactly what we want to do. We want to create a special incentive for exports. The nature of any guarantee program is that you will distort the market place. By definition, any guarantee program of any governmental agency is, to a certain extent, a distortion of the market. The question is how do you want to?

Well, we've made the judgment that we want to effect the market place to advantage exports. There's a whole slew of reasons for that, and I won't go into all of them now. Because, by and large, it's exports where we are in competition with the international market place, with people who produce and sell from Japan where export incentives are far greater than the United States, where producers from Germany, from France, et cetera, where export incentives are far, far greater than in the United States.

Were we to backtrack now on something that offers hope to the small business community, a proven track record over at least a period of 1 year, would be tantamount to unilateral disarmament, in that it is of such insignificant financial consequence that it's almost impossible to discern on the ledger and the only reason to do it would be because of ideological rigidity. Actually, not even that because once you give a guarantee, whether it's 80 or 90 percent, you're pregnant. If you're pregnant, make it a healthy baby.

The two chairmen are the ones who have determined who testifies, and if they couldn't find anybody to testify in favor of a lower guarantee, maybe that's proof that there is consensus in the real world. That's the question. What do you think about that?

Chairman MANZULLO. I have some questions that really go to the heart of the issue. I'm not talking about harmonization program. That is whether the decrease of the guarantee rate of Eximbank to the levels of the SBA. You're talking about harmonization. I wrote down the word hybrid, partnership, harmonize, seamless, improved and reinvent. But does SBA and Eximbank charge the same fees to customers?

Mr. CUMMINS. Under the harmonized program, yes. Previously, they did not.

Chairman MANZULLO. You said yes and Ms. Pulley is nodding no. Is the customer charged the same rate as a percentage of the loan?

Mr. CUMMINS. That was one of the features of the harmonization.

Chairman MANZULLO. So, it's essentially the same fees. Is that correct?

Mr. CUMMINS. That's correct.

Chairman MANZULLO. GAO is next.

Ms. HECKER. It's hard to disagree with a banker who has personal experience. But our understanding is that SBA's fees are .25 percent for a guarantee that's under 12 months. Eximbank's fee, for under 6 months—they have two different rates for under 6 months and one for 7 to 12 months. The under 6 months is .75 percent, .25 of which goes to Eximbank, and .50, which goes to the bank. They have a different fee, higher fee, 1.5 if it's 7 to 12 months. That also has a split; .25 goes to Eximbank and 1.25 goes to the lender.

Mr. KAMARCK. The split fees are only for delegated authority where the bank does all of the processing.

Mr. CUMMINS. The fees that the bank keeps are optional. The part that has to be charged to the borrower is exactly what has to be charged under the SBA Program as well.

Ms. PULLEY. The answer to your question is that fees we collect are the same. The difference is the fees that go to the banks. Eximbank is splitting its fees with the banks and we do not.

Chairman MANZULLO. But is the customer charged the same?

Ms. PULLEY. No.

Chairman MANZULLO. It's such a simple question.

Mr. LAFALCE. It's a simple answer too.

Mr. CUMMINS. I speak to my experience with it. The way the delegated authority program is structured, it allows us to charge the identical guarantee as that under the SBA Program.

Chairman MANZULLO. Because you do all the work?

Mr. CUMMINS. Largely speaking.

Chairman MANZULLO. Is the person who gets the loan for under $750,000 from the SBA and the one who gets the loan for over $750,000 from Eximbank charged the same percentage?

Ms. PULLEY. It depends.

Mr. CUMMINS. It depends. If you're talking about over $750,000 and whether or not that guarantee at Eximbank is obtained through a delegated authority lender, or if it is obtained directly from Eximbank.

Chairman MANZULLO. Why should it make any difference?

Mr. CUMMINS. Because under the delegated authority program there's flexibility to allow the retention of the fee by the bank—part of the fee—and that retained portion can be negotiated with the borrower.

Chairman MANZULLO. How many banks have delegated authority at Eximbank?

Mr. KAMARCK. I think it's 32 at this point.

Chairman MANZULLO. So, it's negotiable? The borrower goes into a bank and he wants a loan in excess of three-quarters of a million dollars. Now he may have found out for the first time at this hearing that he can negotiate certain percentages.

Mr. KAMARCK. The fees and interest rate and other terms of the loan are always fully negotiable in all circumstances. What we're talking about is what fee we want to receive out of the deal.

But we're offering a guarantee that the transaction—the loan transaction is between bank and borrower. That's what the market will bear and what the relationship merits.

Chairman MANZULLO. Let me put it in terms of a hypothetical construct: Somebody has a contract to sell barrels to Italy in which to put wine in——

Mr. LAFALCE. What Italian is going to buy an American wine?

Chairman MANZULLO. I said that because if I used pasta or brought up our ethnic background you probably could relate to that.

But let's take that and let's say day one is $700,000, on day two, it's raised to $800,000. On day one he goes to SBA and he says, well, I really need $800,000, so he goes to Eximbank. It's going to be a different percentage that he'll be charged to get his loan?

Mr. CUMMINS. Depending on the bank, it's possible.

Chairman MANZULLO. That doesn't seem like a very seamless, harmonized policy. You have different charges.

Mr. KAMARCK. A couple of points, Mr. Chairman. First of all, the borrower is dealing with this bank and he's saying: Here's what I need, what will you charge me—interest fees and so on.

Now, in terms of the fee structure, whether the guarantee is going to be provided by Eximbank or SBA, and whether it's delegated authority or not delegated—and I've been corrected by staff. We now have 53 banks in 22 States with delegated authority, for the record. The fees that are quoted to the borrower may well be different.

I should also say that while I remembered the colloquy with SBA about fees as part of the harmonization program, clearly, we didn't go the full distance in getting those harmonized. It's part of everything we're doing at Eximbank. We are looking and we're doing transaction pricing across all of our programs. One of the things that we will be doing in our program this year for the Working Capital Guarantee Program is looking at the pricing of this to see if we can reduce our subsidy, to see what the realities of the market place are, how much the borrower is paying and how much the banks are pocketing and so on. But that is still a story in progress.

Chairman MANZULLO. Do you want to say something, Ms. Pulley?

Ms. PULLEY. If I may clarify one point?

Chairman MANZULLO. Sure. Of course.

Ms. PULLEY. I'd like to reiterate a point I made to Chairman Torkildsen and that was that for SBA, this is still a pilot program. We have 11 months experience with this program. If you will, we're still trying to get it right.

We recognize that, as I addressed this issue about making our program self-financing, that once we institutionalize this program it will become part of our 7(a) Program and therefore, we have to honor our commitment to reach zero subsidy rate. So, we will have to look at the fee adjustment. But right now, in terms of where we're going, the difference between our delivery system, the way we are processing these loans, and the way SBA is processing them, is different. That allows us to have the different pricing mechanism until we get all the kinks out and develop an institutional method for delivering the program. That's part of the harmonization process.

Chairman MANZULLO. I received a letter here from the National Association of Government Guaranteed Lenders, signed by Anthony Wilkinson who's the president and CEO. He said that EWCP has had very little usage, even though it had the highest guarantee percentage available for the SBA. Clearly, a 90 percent guarantee is not what determines whether a lender will or will not participate in the EWCP.

In August his organization polled several lenders who have used or attempted to use the program. The response we received was that it was not the guarantee that was the deciding factor but, rather, the knowledge of the program by the lender, the knowledge of the program by the SBA loan officer, the ease of utilizing the program, and if there was another loan program that better meets the customer's needs, e.g., faster application and response time.

Then a communication that I received from C.S. Johnson Co. from Champaign, Illinois, where they were very unsatisfied with the service of the Eximbank and went to the SBA to seek a lower amount. I guess what I'm looking at here is keeping these loans at the SBA based upon the $750,000 amount. This $750,000 figure has some type of magic to it. I don't know where that figure came in, but I would suggest that perhaps Eximbank do all the lending in the area of export financing and defer or act upon recommendation by SBA that could do the counseling and support services aspect of the loan.

That's the best way to harmonize it because Eximbank doesn't have the personnel or the time or the expertise in working with the smaller companies that want to export. Eximbank does not have SCORE. Eximbank is more ledger-sheet oriented and SBA is more transaction oriented or has more heart, as opposed to cold sterile figures.

Perhaps there's some way that the two organizations can work better on that basis. I realize the bigger banks don't want to process small loans but that's tough bananas. If you want to do some of these investments and you've got to worry about a $1,500 student loan, nobody likes to worry about those things.

But I just think that when you look at the small amount of SBA loans—Ms. Hecker, what is it? Something over 100 loans so far in the program?

Ms. PULLEY. One Hundred Fifty Six in 11 months.

Chairman MANZULLO. That's a relatively small amount. That would come out, if you, for example, used the 55 or 56 banks that have the delegated authority, which comes up to about three loans per institution per year. That's a fairly small amount. Any comments?

Ms. PULLEY. A couple of things. Let me try to address each of your points.

First of all, in terms of the letter with NAGGL, we're very familiar with NAGGL. We work very closely with them. But NAGGL primarily represents real estate banks. We have worked, from the very beginning, with BAFT. They are the organization that represents banks in the export working capital and trade financing areas.

I certainly appreciate Mr. Wilkinson's comments but, again, I would say that, by and large, the banks that are members of NAGGL are not the banks that are heavily involved in the international trade financing.

Mr. LAFALCE. I wonder if I could just interrupt a few seconds. I have spoken on inumerable occasions before NAGGL and before BAFT. I have yet to meet a bank that belonged to NAGGL that belonged to BAFT, and I've yet to meet a bank that belonged to BAFT that belonged to NAGGL.

Of course, if you have a low guarantee for a BAFT bank then NAGGL banks might think it's less of a loan for them. Just a thought.

Ms. PULLEY. In terms of the $750,000 cutoff as to where the loan goes, whether it's Eximbank or SBA, basically the cutoff is consistent with SBA's legislative authority and the size of the loan guarantee we can provide.

Certainly, this fiscal year, as we tried to manage our 7(a) funds—we made an administrative decision to lower that amount to $500,000. But, again, because the Export Working Capital Program is, a pilot and because of the historical instability of this program, we made a decision, with our committee's approval, to keep the $750,000 limit for the export working capital, again, because we were just getting the program started. But that became the distinction.

It was consistent with SBA's overall lending limit. In terms of combining the program at either Eximbank or SBA, I think the important thing to keep in mind is the needs of our customers. Small businesses, especially new to exporting small businesses, need greater technical support and assistance.

SBA is able to provide that because of our resources and our delivery mechanisms. It is also a reason why our approach to financing is different. As Mr. Kamarck mentioned, Eximbank has 440 employees, mostly located in Washington, so they have to have a different approach, but also because most of their customers are more sophisticated, are more mature and are more established businesses. A lot of our companies are startup companies. They're new companies, so you've got to go out and kick the tires.

That's why we have the delivery system we have, because our involvement—maybe it's more warm and fuzzy, maybe it's more heartfelt. But it is simply the nature of our business. That's who our customers are. So, our business has to be tailored to meet the needs and demands of our customers.

So that I think that, as Mr. LaFalce said, we figured out a strategy that works here. It serves the large companies that are Eximbank's traditional business and meets their administrative and organizational structure. It serves smaller businesses, which our delivery system and our structure is better able to accommodate.

Chairman MANZULLO. Mrs. Clayton.

Mrs. CLAYTON. Thank you. I wish to thank the chairs for having this continuation of the exploration of the idea. The purpose of this was to see if there an opportunity, consistent, I guess, with Mr. LaFalce's attempt earlier, to make some exception for reducing the amount of the subsidy in exporting, in particular SBA.

So that the purpose for this hearing was to see if there was any need for it or would there be any problems with it. I think the record is clearly shown by those who have testified today and by your written testimony that, indeed—Mr. Cummins, I think, has made a very salient point is that stability is very important in this area. Two, I think Ms. Hecker made the observation earlier on that probably the barrier that has to be overcome early on is the availability of capital.

Mr. Cummins, I'm sure just said mistakenly when he said gentlemen and gals, and I just picked that up that he probably meant to say gentlemen and ladies.

By the way, I was one of those who sat on those committees. I'm not a banker but I've served in the banking business so I know a little bit about the confusion in trying to understand. You are correct that many of us who served in that capacity on a board or banking committee and approved loans it was confusing.

So if you now have a program that is working, apparently, and I have to just accept your word that the harmonizing program has brought together some desperate and good points and made it easier for the small business—Mr. Chairman, I would think 156 in 11 months is a pretty good record. So, if you are trying to reduce the subsidy to have an impact on the budget, this is the wrong place to do it.

If we're trying to say is there a need to have a difference in what we do domestic and foreign, I think there is a reason why because capital is a stumbling. We also know the opportunity for small business is lower in the foreign markets. So, we want to make it easy for small business people to do that. So, you couple the SBA and the Eximbank together and it makes it easier for bankers to do that.

By the way, bankers are not known to be terribly inventive. If you say they're in creating financing, they say they're not a banker. So, they wouldn't have thought of bringing these two together, so you have to make it easy for them to do it. There are some bankers who would say that this particular doesn't make sense.

I'm encouraging bankers in my area, because I have an interest in banking and have spoken to our North Carolina Bankers about getting into this. North Carolina is not known to be small potatoes in the banking community. So, if we're not active, then I know nationwide, it's not surprising that you don't have a lot of bankers.

Mr. Chairman, I just want to go on record saying that both the testimony, as well as the reason why we reconvened this hearing is to see if there was some reason why there ought to be a distinction in how we approach the subcommittee for the SBA—one, it's not going to have a significant in the budgetary concerns which we're all trying to do. So, we're not talking fiscal responsibility. It is inconsistent for us not to give an incentive that would, indeed, encourage small business and bankers to be in the business of exports. So, I want to commend you for having the hearing and I think the statements speak for themselves.

Chairman MANZULLO. I want to thank all of you for coming here. Let me give you, the panelists, the chance to speak if there was something that you wanted to add but did not have the opportunity.

Mr. KAMARCK. One thing that I should put on the record, Mr. Chairman, is that there are two, I think, factual inaccuracies in my written statement for the record that have been pointed out to me that we will hasten to correct in a letter to the subcommittee.

Chairman MANZULLO. Don't worry about that. It's part of the record. Anybody else?

We want to thank you all for coming here today. This is obviously a unique problem when somebody wants to export, he faces a little different situation, depending upon the institution with which he works, with either the SBA or the Eximbank.

We would keep the record open for 30 days for anybody who wants to submit additional statements. I'm not convinced, based upon the testimony today, that lowering the rate guarantee will decrease the bank's willingness to make export loans. Because as I look at the very unique character of these loans, these are contract loans.

My understanding is that when somebody comes to a bank for a pre-export working capital loan they have a contract that says, I won this particular project, as opposed to financing the business, as a whole. If you look at some of the history on these loans, the maturity with the C.S. Johnson loan was 2 months. It was an $800,000 loan. They had another one for $833,000. These are all based upon projects. I've never been involved directly in the banking industry, but indirectly as an attorney who represented several business.

When banks are faced with deciding to approve an export loan they adequately secure themselves, by filing the appropriate forms under the Universal Commercial Code. I'm just not convinced, and I'm sorry, that a bank is going to deny the loan of this magnitude based upon the fact that the guarantee rate will be lower. The GAO came up with the same conclusion. Maybe it's because we're only 11 months into the pilot program itself. Perhaps banks would have to become more aggressive in securing their loans.

One thing we did not bring up today was the role of the Overseas Private Investment Corporation (OPIC), which covers an investment if banks are really concerned about a loan that may be imperiled during the export to a foreign country.

You're shaking your heads on this, but to a certain extent, an OPIC guarantee does make the loan safer if there's concern about the nature of the country in which the investment is made. So, I would like you to submit to us your thoughts on this. Are loans in the approval process at the SBA at risk under the FWCP program because of lowering the guarantee rate? I'd like to see something more than opinions.

Here is one opinion going one way and another opinion going the other way. If Mr. Wilkinson were here he would shake his head yes. Mr. Cummins, you shake your head no on it. But one thing for sure is that Mrs. Meyers' bill will probably be enacted and become law. This is not a perfect world. I'm still concerned very much over the fact that there are different guarantee rates.

I can't go fully along with Mr. LaFalce's suggestion at this time. I think it creates inconsistency in the law, different guarantee rates, depending upon the type of loan.

Let me just ask a final question of Ms. Pulley. Is the SBA concerned that if an exception is made in allowing Mr. LaFalce to apply for exports that this will open the door to requests for other exceptions?

Ms. PULLEY. Are you asking if we have the 90 percent guarantee for the Export Working Capital Program that there are going to be exceptions?

Chairman MANZULLO. Will there be other people saying for this type of loan or that type of loan we should have a similar exception?

Ms. PULLEY. I think you have to look at the program and what it serves. I don't think you can say that any financial institution, whether it's Federal, State, or private, will have the same set of terms and conditions for all finances. It depends on the risk profile, the tenure of the loan, the borrower, any number of reasons.

I don't think we can take an across-the-board approach to any loan program. I think we have tried to make a case here for why there is a need for a different approach for this program. This program is very different from most of SBA 7(a) loan programs.

Chairman MANZULLO. We commend all of you, especially the working partnership, between Eximbank and SBA on getting the word out to the various businesses that these loans are available. I think that's highly commendable because that has to be one of the reasons why there have been 156 SBA export loans completed in an 11-month period of time at $52 million. That's some commerce. But I am concerned about the disparity. That's the reason why Mr. Torkildsen and I called for this special hearing today. I don't know how it's going to be resolved. Perhaps that's something that greater minds than ours present today can offer. But in any case, let me leave the record open for 30 days, and you work on it and come up with some suggestions, please submit them because we would really appreciate that. The subcommittee is adjourned.

[Whereupon, at 11;20 a.m., the subcommittee was adjourned, subject to the call of the chair.]

# APPENDIX

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**Statement of Representative Eva Clayton**
**House Small Business Committee**
**Subcommittee on Procurement, Exports and Business Opportunities**
**and the**
**Subcommittee on Government Programs**
**A Joint Public Hearing**
**September 7, 1995**

Mr. Chairman, Just before the recess, the Full Committee marked-up H.R. 2150, the Small Business Credit Efficiency Act of 1995. At that time, Mr. LaFalce introduced an amendment that would restore to ninety percent the amount of a guarantee on financing for one year or less under the Small Business Administration's Export Working Capital Guarantee Program. Mr. LaFalce agreed to withdraw the amendment on the condition that today's hearing would be held. This is an important hearing and an important issue.

The SBA 7(a) Program is designed to provide greater access to capital for the small business. It is the primary loan guarantee program for those small businesses seeking commercial loans in an amount up to $750,000. Minorities and women are prime beneficiaries of this loan guarantee program, as well a small exporters. The Program has grown over the last five years. For Fiscal Year 1995, the SBA is expected to handle some 56,000 loans, totalling $7.8 billion. The SBA is not the lender under this Program. Instead, it serves as a facilitator and guarantees a percentage of a loan a small business might arrange with a commercial lending institution.

The Bill, H.R. 2150, is designed to increase the leverage of government dollars against private dollars and to reduce the subsidy rate for the 7(a) Program to approximately one percent. This is accomplished in several ways, by increasing the fees for loans sold; by reducing the guarantee on loans; by changing the guarantee fee on loans; by repealing the provision that allows lenders to retain half the fee on small and rural loans; and ny increasing the maximum loan amount and adding to the fee in another loan program.

I support the LaFalce amendment because I believe it is consistent with the thrust and spirit of H.R. 2150, while at the same time insuring that the goals of the 7(a) Program are met. The LaFalce amendment continues in practice a policy with which financial institutions, the government and participants alike have become familiar. Considerable resources have been committed over the past year by both SBA and the Ex-Im Bank in an effort to make the Program work. Much of that effort will be lost with an abrupt, unnecessary change at this point.

I look forward to this hearing, Mr. Chairman. The Export Working Capital Guarantee Program is vital to women, minorities and small exporters. We should keep it working.

STATEMENT FOR CONGRESSMAN FLOYD H. FLAKE
BEFORE THE JOINT SUBCOMMITTEE MEETING ON THE
EXPORTS WORKING CAPITAL PROGRAM
SEPTEMBER 7, 1995

GOOD MORNING CHAIRMEN TORKILDSEN, MANZULLO AND MEMBERS OF THE SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES. I AM PLEASED TO DISCUSS AND EXPLORE THE IMPLICATIONS OF PROVIDING SMALL BUSINESSES WITH THE NECESSARY TOOLS TO SUCCEED IN THE INTERNATIONAL MARKETPLACE BECAUSE I UNDERSTAND THAT SMALL BUSINESSES ARE PIVOTAL TO THE HEALTH OF THE U.S. ECONOMY. IT IS IMPERATIVE THAT WE UNDERSTAND THAT EXPORT PROGRAMS ARE AN INVESTMENT IN THE FUTURE OF THE U.S., AND THEY CREATE JOBS AT HOME. FURTHER, AMERICA'S ECONOMIC VITALITY DEPENDS HEAVILY ON EXPORTS, AND THE ABILITY TO CREATE EXPORTS WILL DEPEND, IN LARGE MEASURE, ON SMALL BUSINESSES. SINCE 1989, EXPORTS HAVE ACCOUNTED FOR APPROXIMATELY 70% OF THE GROWTH IN THE U.S. ECONOMY. TO THAT END, WE SHOULD THOROUGHLY DISCUSS ANY PROPOSAL TO HARMONIZE THE EXPORT WORKING CAPITAL PROGRAM (EWCP) OF THE SMALL BUSINESS ADMINISTRATION (SBA) AND THE EXPORT-IMPORT BANK (EM-IM BANK).

NOTWITHSTANDING, I UNDERSTAND COMPLETELY THAT OUR GOVERNMENT IS FACING TOUGH BUDGET TIMES. THEREFORE, IT IS ESSENTIAL THAT WE, AS LEGISLATORS, CLEARLY DEFINE OUR EXPORT GOALS AND ALLOW THE FEDERAL AGENCIES CHARGED WITH CARRYING OUT THESE RESPONSIBILITIES TO DO SO WITHOUT CONGRESSIONAL INTERFERENCE. HOWEVER, WE MUST ENSURE ACCOUNTABILITY AND FISCAL RESPONSIBILITY.

I WILL PAY CLOSE ATTENTION TO HOW EFFECTIVE THE PARTNERSHIP BETWEEN THE EXPORT- IMPORT BANK (EX- IM) AND THE SMALL BUSINESS ADMINISTRATION (SBA) EXPORT WORKING CAPITAL PROGRAM (EWCP) HAS BEEN. SPECIFICALLY, THE IMPLICATIONS OF THE HARMONIZATION OF EXPORT FINANCING PROGRAMS BETWEEN THESE TWO AGENCIES. AGAIN, I WOULD LIKE TO THANK CHAIRMAN TORKILDSEN AND MANZULLO FOR HOLDING THIS IMPORTANT HEARING.

REP. JOHN J. LaFALCE
Ranking Democratic Member

Opening Statement

**Oversight Hearing on the SBA Export Working Capital Program**
**September 7, 1995**

This morning's hearing to examine SBA's Export Working Capital Program is in part a consequence of an amendment I submitted during markup of **H.R. 2150** in August. My amendment would maintain the Export Working Capital Program guarantee at its current level of 90 **percent** of the loan amount. H.R. 2150 provides for 75/80 percent guarantees for all 7(A) programs. SBA's Export Working Capital Program is a special sub-set of the SBA 7(A) program. Guarantees in the Working Capital Program for FY-1995 to date **are less than 1 percent of the overall 7(A) program.**

I eventually withdrew that amendment with the understanding that, if a consensus emerged as the result of this hearing, an amendment to that effect could be offered during floor consideration. I continue to believe my amendment merits support.

In September 1993, the Administration's Trade Promotion Coordinating Committee issued its first report--mandated by Congress--Toward a National Export Strategy. One of the Committee's 65 recommendations focused on SBA's and Eximbank's working capital loan guarantees. The report's recommendation was to "streamline the pre-export working capital guarantee programs of Eximbank and SBA to make the programs more customer-focused and to

OPENING STATEMENT OF THE HONORABLE DONALD A. MANZULLO

BEFORE THE SUBCOMMITTESS ON GOVERNMENT PROGRAMS AND

PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES

OF THE HOUSE SMALL BUSINESS COMMITTEE

OVERSIGHT HEARING ON THE EXPORT WORKING CAPITAL PROGRAM

SEPTEMBER 7, 1995 10:00am

We are here today to review the effectiveness of the Export Working Capital Program, jointly administered by the Small Business Administration and the Export-Import Bank.

This is a relatively new program, not even a year old, that tries to address one of the two major gaps in exporting -- trade finance. The Export-Import Bank was known until recent years as the export financing arm for big business. Small business has few choices open to them, especially as many private banks shied away from approving or even exploring trade loans in the wake of the debt crisis in the developing world during the early 1980's.

This committee was the impetus behind requiring a ten percent set-aside for small business loans at Ex-Im. But that only scratched the surface. The Trade Promotion Coordinating Committee recommended the current trade finance partnership between SBA and Ex-Im. Because of the difference in the two guarantee rates at Ex-Im and SBA, they agreed and Congress approved the 90 percent guarantee level for the Export Working Capital Program.

When we were in this room last month, the committee approved HR 2150 that would decrease the guarantee rate for 7(a) loans to 80 percent for loans up to $100,000 and 75 percent for loans above $100,000. The problem confronting this committee is that this change would apply only to the SBA portion of the Export Working Capital Program.

Today's hearing will explore the ramifications of this proposal on this nascent program and whether or not it would be wise to proceed with an amendment to correct this problem.

I look forward to the testimony of the witnesses here before us today.

# OPENING STATEMENT

## CHAIRMAN PETER G. TORKILDSEN
## SUBCOMMITTEE ON GOVERNMENT PROGRAMS
## HOUSE COMMITTEE ON SMALL BUSINESS

### SEPTEMBER 7, 1995
### 10:00 AM

**The committee will come to order.**

On August 4th the Small Business Committee marked-up HR 2150, the Small Business Credit Efficiency Act of 1995, with the intent of decreasing the subisdy rate for the Small Business Administration's (SBA) 7(a) loan program. The legislation lowers the guarantee rate to 80% for all loans below $100,000 and to 75% for all loans above $100,000. During the mark-up, the full committee ranking minority member, John LaFalce, offered but graciously withdrew an amendment allowing the SBA to provide a 90% guarantee for a revolving line of credit for export purposes with a maximum of three years for repayment, regardless of the loan amount.

This is a joint hearing of the Small Business Subcommittees on Government Programs and Procurement, Exports and Business Opportunities. The purpose of todays hearing is to examine the SBA's partnership with the Export-Import (Ex-Im) Bank through the Export Working Capital Program (EWCP). It is this panel's intention to explore the implications of Mr. LaFalce's proposed amendment, especially as compared with loan guarantee rates provided by Ex-Im Bank, and to review the progress of the harmonization of export financing programs between the two agencies.

The Export Working Capital Program is a product of the 1993 Trade Promotion Coordinating Committee (TPCC) recommendations regarding export financing. On October 1, 1994 the Ex-Im Bank and the SBA harmonized their respective pre-export working capital programs. An agreement was made which allows the SBA to process loans under the amount of $750,000 and the Ex-Im Bank to process loans above that amount.

There are a number of arguments both for and against retaining the 90% guarantee rate for export purposes. It is my hope that through testimony from and discussion with our distinguished witnesses that we will address these issues and make a solid recommendation to the full committee as to how to proceed.

With that I will yield to my friend and colleague, Chairman Manzullo for any opening statement he may wish to make.

# PREPARED STATEMENT
# OF

William C. Cummins
Group Vice President
SouthTrust Bank of Alabama, N.A.

On Behalf of the
Bankers' Association for Foreign Trade

Before the Subcommittees on:
Government Programs
and
Procurement, Exports and Business Opportunities
of the
Committee on Small Business

U.S. House of Representatives
Washington, D.C.

September 7, 1995

93-907 96 – 2

Mr. Chairman and members of the Subcommittees, my name is William Cummins, and I am Group Vice President of the SouthTrust Bank of Alabama in Birmingham, Alabama. I am pleased to appear today on behalf of the Bankers' Association for Foreign Trade ("BAFT"), where I serve as Chairman of the Small Business Export Finance Committee.

BAFT is one of the oldest U.S. financial trade associations, whose members include virtually all U.S. banks that are actively engaged in international activities, especially the financing of U.S. trade. BAFT's Small Business Export Finance Committee consists of banks who are particularly involved in financing small business exports throughout the country, and therefore utilize the U.S. Working Capital Guarantee Program(WCGP), administered by the Export-Import Bank and the Small Business Administration.

Small businesses, which employ about half of the U.S. private workforce and account for about half of all domestic sales, represent one of the fastest growing segments of the U.S. export economy. By the end of 1993, small businesses were generating merchandise exports of about $134 billion — 84 percent greater than 1987 levels.

For many years our industry has worked with both the Small Business Administration (SBA) and the Export-Import Bank to design effective programs aimed at assisting small business exporters and the banks which finance their transactions. Financing small business exports is a rapidly expanding area of banking; there is, however, the major challenge of how to effectively assess and monitor risk, while maintaining adequate profitability.

The SBA and the Export-Import Bank provide the two primary Federal programs which foster small business export finance through guarantees. Until 1994 these programs were significantly distinct in structure and were largely underutilized by the industry. Many banks opted out of small business export finance opportunities due to the lack of an adequate entry-level program. However, in 1994, both agencies came forward with unified, cohesive and workable programs, and the result has been that usage by banks under both programs has materially increased.

Unfortunately, the Small Business Enhancement Act of 1995 (HR. 2150, S. 895) contains a provision which we believe will be a step backward in the progress that has been made thus far, by creating a significant disparity between the two programs. Specifically, the provision will roll back the maximum available SBA guaranty from the current 90% coverage to 75% for guarantees in excess of $100,000 and 80% for guarantees under that amount. This reduction in what is a very important protection to small business lenders raises serious concerns about the future involvement by banks in this area of trade finance and reduces the amount of exports which could be supported. They are discussed below.

BAFT's Small Business Export Finance Committee urges that these concerns be carefully considered before the pending legislation is enacted, and that the SBA guaranty provision be maintained at the current 90% level.

Key Points of Consideration of the Proposed Export Guaranty Reduction:

**1. Historical Perception of Program Instability:** For several years leading up to the harmonized SBA/Export-Import Bank program in 1994, there was ongoing "tinkering" with both programs resulting in an image of unstable and confusing programs. There was the perceived risk that once a bank and an exporter entered either one of the programs, there was the distinct risk that the program could be changed in "mid stream" (keeping in mind that although these guaranties are often issued as a one year commitment supporting a revolving credit line, the underlying relationships are, in fact, for many years). The assumption is that if the exporter performs satisfactorily, the line and supporting guaranty will be renewed each year. So, to change the program yet again could serve to rekindle the negative views of the program's reliability.

Any undermining of the program's credibility and confidence in both the banking and exporting communities is a very significant concern held by the Small Business Export Finance Committee. Through the combined programs introduced in the fall of 1994, banks are now showing renewed and expanded interest in these useful programs and, in the committee's opinion, no major or substantive changes should be forthcoming in the near future (outside of ongoing administrative changes with the Export-Import Bank program). Time is needed to let this harmonized program "take hold."

**2. Inadvertent Competitive Advantage to Banks having Delegated Authority from the Export-Import Bank:** With the reduction of the SBA program's guaranty to 75% and %80 respectively, banks which enjoy delegated authority under the Export-Import Bank program (and therefore permitted to extended loans within the same boundaries as the SBA program) will enjoy an immediate competitive advantage in the market as the Export-Import Bank program bears a guaranty at the rate of 90%. This disparity will yield an undue edge for those banks which can qualify for this optional feature and a disincentive for banks to enter this field. Moreover, this disparity will discriminate against companies seeking guarantees for less than $750,000; under the harmonization program they are precluded from using the Export-Import Bank WCGP program.

**3. Need to Maintain Higher Guaranty Percentage:** It has only been in recent years where the market has seen an increase in the numbers of small businesses which routinely sell internationally. With the lowering of the export threshold (including better foreign market accessibility, more effective international communications, a competitive dollar . . . ), more small and medium-sized companies are exporting, the availability of trade finance *lending* services must be continually expanded to meet this growing demand in so many geographic areas of the country. Simply stated financing constraints causes lost exports.

Done correctly, small business export finance requires a hybrid blend of finance expertise combining the technical knowledge of cross-border payments and credit risks of selling overseas with the seasoned credit skills of asset-based commercial lending. In the U.S., this banking field is still underdeveloped in many markets. However, programs such as the U.S. WCGP provide the inducement/enhancement needed for banks too more actively pursue this important, but niche, market -- in the long run an important part in developing a broad base of sustained exports from the small business sector. Moreover, many transactions now done by participating banks would not be at 75 or 80%; they would be too costly and their risk could not be managed effectively because of the low volume and lack of a securitization facility. ,

Thank you for your interest in the views of our Committee, which we hope will be given full consideration with respect to this provision of the legislation. I would pleased to answer any questions you may have in this regard or to provide additional information.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Procurement, Exports, and Business Opportunities and the Subcommittee on Government Programs, Committee on Small Business, House of Representatives

For Release on Delivery
Expected at
10:00 a.m., EDT
Thursday,
September 7, 1995

# EXPORT FINANCE

# The Small Business Administration's Role in Meeting Small Business Needs

Statement of JayEtta Z. Hecker, Director
International Trade, Finance, and Competitiveness Issues
General Government Division

GAO/T-GGD-95-235

EXPORT FINANCE: THE SMALL BUSINESS ADMINISTRATION'S ROLE IN MEETING SMALL BUSINESS NEEDS

SUMMARY OF STATEMENT BY JAYETTA Z. HECKER, DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES
GENERAL GOVERNMENT DIVISION

The Small Business Administration (SBA) will be challenged to try to continue to meet export finance needs of small- and medium-sized businesses while adjusting to the lower federal funding levels currently being projected for the coming fiscal year. GAO's testimony focuses on SBA's Export Working Capital Program (EWCP), discussing the past use of the program, key improvements made since 1993, projected current use of the program, and options to help reduce the potential impact of reduced federal funding.

In response to the needs of U.S. exporters for working capital loans that commercial lenders were unwilling to supply without federal guarantees, SBA, with congressional support, developed the Export Revolving Line of Credit program (now known as EWCP) in 1980. However, the program was little used until 1990, according to a 1992 GAO report. A total of 161 loan guarantees, worth about $45 million, were approved between fiscal years 1983 and 1990. In fiscal years 1991 through 1994, the annual number and value of working capital loans that SBA guaranteed remained stable, averaging 80 loans worth about $28 million per year.

Responding to legislation in October 1992 regarding the fragmentation of federal export promotion efforts and to recommendations made by the interagency Trade Promotion and Coordinating Committee (TPCC) that was established by that legislation, SBA made changes to its EWCP. SBA addressed three particular TPCC recommendations: (1) SBA has worked with the U.S. Export-Import Bank (Eximbank) to streamline and standardize its working capital programs; (2) SBA has supported "one-stop shops," or U.S. Export Assistance Centers, by assigning 11 staff to the four pilot centers that are to provide a single point of contact for potential U.S. exporters; and (3) SBA has established cofinancing agreements with a few states, which have given the states added ability to grant more loan guarantees.

GAO projects that because of SBA's efforts, it is likely that SBA will guarantee about 164 working capital loans, totaling almost $55 million, for fiscal year 1995. SBA expects an even greater use of the program than GAO estimates.

Because Congress is assessing the need for continued funding of federal loan guarantee programs, GAO identified four possible approaches to help reduce the potential adverse impact of decreasing the funds available for EWCP. These options included (1) lowering the guarantee coverage, (2) increasing guarantee fees, (3) leveraging resources by using its funding as an incentive to create new state export financing opportunities, and (4) consolidating SBA's EWCP into the Eximbank's Working Capital Guarantee program.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Small Business Administration (SBA) and its efforts to meet the export finance needs of smaller businesses while adjusting its operations to the possibility of reduced federal funding levels.

My testimony will address exporter and Trade Promotion and Coordinating Committee (TPCC)[1] concerns regarding the limited extent of export financing available to small- and medium-sized businesses and how SBA has responded to this issue. It will focus on SBA's Export Working Capital Program[2] (formerly known as the Export Revolving Line of Credit program), highlighting the past use of the program, key improvements made to the program, projected current use of the program, and options to help minimize the negative impact on the program's goal of expanding exports caused by a reduction in the credit subsidy appropriation.

My remarks today are based on our reports issued in the past few years covering various aspects of SBA's export promotion and export finance programs. They also draw upon observations made during an ongoing assignment that focuses on implementing the TPCC concept of

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[1]TPCC is an interagency group responsible for developing and coordinating U.S. export promotion programs.

[2]SBA's Export Working Capital Program (EWCP) seeks to expand U.S. exports by encouraging lenders to make working capital loans to U.S. companies for export-related production and marketing activities. Exporters must be domiciled in the United States, although businesses owned by foreign nationals or foreign entities may be eligible for the program.

one-stop shops, or U.S. Export Assistance Centers (USEAC).

LIMITED EXPORT FINANCING

Following a debt crisis in developing countries during the early 1980s, U.S. banks sought to reduce their international debt by limiting their participation in the trade finance area. The TPCC Working Group on Trade Finance observed in a 1991 study that the availability of private trade finance fell well short of demand.

According to a 1993 TPCC report,[3] U.S. exporters maintained that one of the greatest obstacles to increased U.S. exports is inadequate working capital financing to support a company's desire to begin exporting. It also noted that small-, medium-sized, and inexperienced exporters tended to rely on banks for external debt financing to a greater extent than large businesses. The TPCC report states that commercial lenders generally were unwilling to offer export finance services of the type that was most frequently sought by these exporters: pre-export, transaction-oriented financing (i.e., export working capital loans) for relatively small amounts. Lenders viewed this type of financing as too risky, labor intensive, and less profitable than other financial services.

[3]Toward a National Export Strategy, Trade Promotion Coordinating Committee (Washington, D.C.: Sept. 30, 1993).

To persuade lenders to provide working capital loans to small- and medium-sized exporters, SBA, the U.S. Export-Import Bank (Eximbank), and various states have developed working capital guarantee programs. SBA developed its program pursuant to the Small Business Export Expansion Act of 1980 (P.L. 96-481, Oct. 21, 1980) to provide repayment guarantees to eligible lenders for secured loans that would not be made commercially without SBA's guarantee.

EWCP falls within the statutory authority of SBA's regular business loan program, known as the 7(a) program.[4] There is no statutory limit on the proportion of 7(a) guarantees that may be EWCP guarantees. During fiscal year 1995 (through August 25, 1995), EWCP loans represented less than 1 percent of SBA's total 7(a) loan guarantee approvals.

## LIMITED PAST USE OF SBA'S EWCP

As we reported in September 1992,[5] historically, SBA's working capital program has been little utilized. Since 1980, when the program was first introduced, until 1990, there was little use of

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[4]This program is named after section 207(a) of the Small Business Act of 1953 (P.L. 163, July 30, 1953), which authorized it. Under the 7(a) program, SBA is to provide direct loans, or guarantee private lender loans to new or ongoing small businesses that have been unable to obtain other financing.

[5]See Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77, Sept. 2, 1992).

the program. Between fiscal years 1983 and 1990, SBA's export finance program approved 161 loan guarantees, which covered about $45 million in loans. We also reported that the principal reasons for this low level of use included (1) insufficient training of the SBA loan officers in the techniques of applying the program, (2) inadequate marketing of the program to banks and the small business community, and (3) little interest in the program on the part of lenders due to the small average size of the loans and associated small profits likely to be realized.

In our 1992 report, we noted that SBA had recognized these and other program deficiencies and had made efforts to revise key features of the program. For example, SBA extended the maximum term of the loan guarantees from 18 months to 3 years. It also rewrote the guide that SBA staff, participating lenders, and small business exporters use for program applications. In fiscal year 1991 alone, SBA approved about $26 million in guarantees under the working capital program, more than one-half as much as had been approved during the previous 8 years of the program's existence. At the time, we reported that this heightened program activity reflected SBA's program improvements and that it suggested that a substantial unmet demand for the program had existed before the program revisions.

During an ongoing review, we have observed that the level of export working capital guarantees remained stable from fiscal year 1991 to fiscal year 1994. During this 4-year period, the annual number and value of working capital loans that SBA guaranteed averaged 80 loans per year covering about $28 million in loans. The average export working capital guarantee was about $350,000.

IMPROVEMENTS TO SBA'S EWCP

In October 1992, Congress passed legislation to address problems related to a federal export promotion effort that was fragmented among 10 agencies and lacked any governmentwide strategy or priorities. Title II of the Export Enhancement Act of 1992 (P.L. 102-429, Oct. 21, 1992) created an interagency mechanism through which the administration, working closely with Congress, might rationalize and strengthen federal export promotion efforts. This legislation codified the interagency TPCC and tasked it to issue a report by September 1993 containing a "governmentwide strategic plan for federal trade promotion efforts" and describing its implementation.

In its 1993 report[6] TPCC recommended, among other things, that the federal government

[6] Toward a National Export Strategy.

-- streamline the pre-export working capital guarantee programs of Eximbank and SBA to make the programs more customer focused and to take advantage of the agencies' comparative strengths,

-- establish one-stop shops to provide local export communities a single point of contact for all federal export promotion and finance programs, and

-- encourage qualified state/local export finance entities to enter into cofinancing arrangements in which risk is shared.

A high-level SBA official has stated that SBA fully supported the goals of the TPCC report, noting that the agency could play a vital role in achieving the TPCC goals, particularly as they related to small business. To this end, SBA has made diverse efforts to revitalize its EWCP and to increase the level of export financing that it supports.

In our ongoing work, we have discussed with SBA officials their efforts to revitalize EWCP. SBA has implemented many internal changes aimed at improving the EWCP's ability to facilitate more working capital loans. SBA issued comprehensive operating guidelines for administering EWCP, provided basic export finance training to almost 300 of its staff and resource partners (e.g., Small Business Development Center staff) developed more in-depth training on transaction lending[7] for its trade finance specialists, and established specific EWCP goals for each of its 68 district offices.

In addition, SBA has made efforts to actively respond to each of the three TPCC recommendations previously noted.

SBA Has Made Efforts to Harmonize with Eximbank

The Eximbank and SBA have been working together to streamline and harmonize their working capital programs. Accordingly, they have standardized many features of their programs,[8] including the application form, the initial application fee, the guarantee coverage, and the types of transactions covered.

Exporters may now use the same form when applying for either an Eximbank or SBA working capital loan. Although the size of the guarantee fees they charge vary, the initial application fee for either an Eximbank or an SBA guarantee is to be $100. To standardize guarantee coverage, the Eximbank reduced its coverage from 100 percent of principal and interest to 90 percent, and SBA raised its 85-percent guarantee to 90 percent. Funds guaranteed

[7]Transaction lending means financing to support specific transactions that, in most cases, are self-liquidating, as compared to SBA's more traditional asset-based financing in which SBA may provide loan guarantees to purchase equipment. That equipment is, in turn, used as collateral for the guaranteed loan.

[8]Effective October 1994.

under either agency's program may be used to support single transactions or multiple export transactions. Similarly, they may be used to acquire inventory and pay for direct manufacturing costs, or to purchase goods and services.

By agreement, SBA is generally to assist small companies that need a loan of $833,333 or less (resulting in an SBA guarantee of $750,000 or less), and the Eximbank is generally to serve companies that have credit needs above that amount.

### SBA Has Supported One-stop Shops

In 1993, TPCC recommended the creation of four pilot USEACs. These one-stop shops were designed to test the feasibility and effectiveness of providing a single point of contact for the fragmented federal export promotion and financing program. Specifically, TPCC intended for USEACs to more effectively integrate the trade network of the Department of Commerce, the export finance expertise and resources of the Eximbank, and the small business contacts and local presence of SBA into a seamless one-stop shop for export-ready firms.

Viewing the USEAC network as a key component for delivering and administering EWCP, SBA has taken an active role to support the centers. It assigned 11 staff to the four pilot USEACs and assumed the lead as site coordinator of the Long Beach, California, USEAC.

While SBA officials noted that the implementation of the USEAC pilot was in some ways flawed (e.g., lacking unified goals), they viewed the centers as the best means of administering EWCP. As such, when TPCC later announced the planned openings of an additional 11 USEACs by the end of 1995,[9] SBA established 11 new trade finance specialist positions to staff them.

Trade finance specialists assigned to USEACs are expected to spend 100 percent of their time administering and promoting SBA's working capital program. They are to guide borrowers in the EWCP application process and provide review and first approval[10] of the working capital guarantees. They are also to spend a portion of their time networking with and recruiting local banks to participate in SBA's Preferred Lender Program.[11] To ensure that they are properly motivated, SBA has established EWCP goals for trade finance specialists it has assigned to each of the centers. For example, SBA staff located at the Long Beach USEAC have a goal of completing 22 working capital guarantees for the current fiscal year.

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[9]As of August 1995, 5 of the additionally planned 11 USEACs had been opened.

[10]SBA requires that all loans be reviewed and approved by two different loan specialists. With the exception of the Long Beach USEAC, which has ability to complete both financial reviews in-house, USEACs are to send their EWCP loan packages to an SBA district office for the second approval.

[11]Under the Preferred Lender Program, a lender and SBA enter into an agreement that allows the lender to approve loans and receive a guarantee from SBA without obtaining prior SBA approval.

SBA Has Established Cofinancing Agreements

Recognizing that states such as California have specialized experience in export lending, SBA entered into a coguarantee agreement with the California Export Finance Office (CEFO) in January 1994. This interagency agreement provided a 50/50 matching guarantee for 90 percent of the principal of requested working capital loans. Guarantees under this agreement were not to exceed $1.5 million,[12] or up to $750,000 per agency per guarantee.

According to the Director of CEFO, the state conducts its loan analyses and completes its forms as usual, then sends the loan guarantee package to SBA trade finance specialists located at the Long Beach USEAC for approval. The loan package is also given to an SBA district office attorney for legal review and approval.

Despite some duplication in the review process by SBA and CEFO, the cofinancing arrangement represents an example of a cooperative agreement that can be mutually beneficial. This arrangement allows CEFO to benefit from having access to guarantee funds from SBA that are in addition to CEFO's own funds. Also, CEFO may now be able to support the larger transaction needs of small- and medium-sized exporters. In the meantime, SBA may capitalize on CEFO's extensive export finance expertise and reach out to a greater number of small- and medium-sized exporters.

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[12]Loans under this agreement were not to exceed $1.67 million.

Since January 1994, SBA and CEFO have coguaranteed 11 loans, totaling $8.3 million. While on the surface the number of loans appears low, both federal and state officials view the agreement as a success. The Director of CEFO viewed the coguarantee agreement as a success, noting the state's added ability to grant more guarantees by tapping into federal resources. SBA officials also considered the agency's coguarantee agreement with CEFO to be a success and stated that SBA has recently established similar arrangements with Kansas and Florida. They also noted that SBA planned to further expand the coguarantee program to include other states that have expressed an interest in the program and have developed an effective export finance program.

## FISCAL YEAR 1995 PROJECTIONS INDICATE EXPANDED PROGRAM USE

Although it is still premature to assess the full effects of the Eximbank's and SBA's harmonization efforts as well as other internal changes made by SBA, initial results indicate a greater use of EWCP. An SBA official suggested that the agency will guarantee about 240 loans by the end of the fiscal year--over three times as many loans as those guaranteed during the prior fiscal year. This estimate was calculated by adding the number of preliminary commitments and the number of applications (i.e., pending approval, in process, or newly submitted) outstanding to the actual number of approved guarantees.

However, our projection, based on a straight extrapolation of 11 months of actual data, estimates that SBA will guarantee about 164 working capital loans, totaling almost $55 million, for fiscal year 1995. Although this projection is lower than SBA's, it represents a marked increase from the prior years, double the number of loans guaranteed by SBA during fiscal year 1994.

While the volume of loans has increased during the past fiscal year, we believe it is still too early to judge SBA's efforts to restructure and improve EWCP as well as the overall effectiveness of the program. Information on the extent of defaults that may be associated with these loans is still limited. Also, an SBA official pointed out that the agency's ability to fully implement its EWCP delivery system was based on the implementation of the USEAC network which, at the time, was still scheduled to open another six centers before the end of the calendar year.

OPTIONS TO HELP REDUCE THE ADVERSE
IMPACT OF A DECREASED CREDIT SUBSIDY

In the current budget environment, Congress is carefully assessing the need for continued funding for all federal programs, including federal credit programs. The assessment of credit programs includes various SBA-administered programs such as EWCP. We understand that reducing the agency's overall credit subsidy program for the 7(a) program is currently under consideration, and I will discuss four suggested approaches we identified to help reduce the potential adverse impact of lower federal funding on the program's goal of increased exports: (1) lowering the guarantee coverage, (2) increasing the fees charged, (3) better leveraging of resources, and (4) consolidating SBA's EWCP into the Eximbank's programs.

-- **Lowering the guarantee coverage.** The first approach involves lowering SBA's guarantee coverage to about 70 to 75 percent to help decrease the credit subsidy cost of any given loan receiving an SBA guarantee. This approach would permit a larger number of guarantees to be made than otherwise would be the case with the reduced appropriation, if lending banks are willing to assume the additional risk and exporters are willing to pay potentially higher rates. This approach may work for SBA's overall 7(a) program for which a large number of banks participate. However, this approach may have a negative impact on SBA's EWCP, which does not have the benefit of as extensive a pool of banks to finance export loans as is available to its domestic programs. Reducing the guarantee coverage would create greater risk for participating lending institutions, thereby making these export finance loans less attractive to them. This, in turn, could further diminish the already limited pool of banks willing to engage in providing export working capital loans to small companies. Thus, the actual result of reducing the guarantee coverage could be a decrease in the use of EWCP beyond what would happen from just cutting the current subsidy appropriation.

Also, effective this fiscal year, SBA increased its guarantee coverage for export working capital loans from 85 percent to 90 percent to be consistent with the Eximbank's level of coverage. Decreasing the guarantee coverage would run counter to this congressionally approved harmonization effort and to other efforts designed to encourage greater private sector participation in export financing.

-- **Increasing the fees charged.** Additional revenues realized through increased fees lower the credit subsidy cost of making loans. SBA guarantee fees have remained stable at 0.25 percent per year of the guaranteed amount[13] and consistent

[13]The SBA fee is 0.25 percent of the guaranteed amount for loans that are 12 months or less. For loans that are guaranteed longer than 12 months, the fee is 2 percent of the guaranteed amount.

with similar guarantees offered through its other programs. This fee was not made directly consistent with the Eximbank as part of the harmonization effort; under the Eximbank's Delegated Authority Program,[14] the guarantee fee is 0.75 percent per annum of the loan amount for loans that do not exceed $833,333 and mature in 6 months or less.[15]

According to SBA officials, the agency has chosen to keep fees at the current level to better service the small business community and to help keep export financing accessible to them. They acknowledged, however, that given the current budgetary environment, it may be time to consider increasing the fees charged. Keeping fees reasonable so as not to drive small businesses away from exporting will continue to be an important SBA consideration. One official suggested that standardizing fees with state programs, such as CEFO, that focus on smaller businesses as does SBA may be more appropriate. CEFO currently requires a 0.50 percent facility fee on the amount of the guarantee.

-- **Better leveraging of resources.** SBA has already started to engage in leveraging strategies involving cooperative

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[14]Under the Eximbank's Delegated Authority Program, a lender and the Eximbank can enter into an agreement that allows the lender to approve loans and receive a guarantee from the Eximbank without having to submit individual applications to the Eximbank for approval.

[15]For loans that do not exceed $833,333 and mature in 7 to 12 months, the fee is 1.5 percent per annum of the loan amount.

agreements with state entities, such as CEFO, and with private banks through its Preferred Lender Program. SBA may be able to further leverage its resources by using its funding as an incentive to create new state export financing initiatives or to enhance existing ones.

SBA could be a catalyst for change if some of its funds are provided as an incentive for states to increase their funding of export finance programs and if states choose to take advantage of such an incentive. In using SBA resources to provide matching federal funds, limited federal funding can be used as an inducement for states to assume a greater role in providing export finance assistance to small businesses.

SBA could provide states that do not have export working capital guarantee programs with matching funds to encourage them to establish such programs. For states with existing programs, SBA could match additional state dollars with federal dollars as long as the states are willing to increase their appropriation for working capital guarantees. For example, if a state currently appropriates $10 million for export financing guarantees and increases its appropriation by an additional $5 million knowing that SBA would match it with $5 million in federal funds, this would result in $20 million in total available guarantees rather than $15 million--$10 million from the state and $5 million from SBA. In this way, additional state funds would be made available to provide more export financing assistance to small businesses in general and could help minimize the adverse impact of a reduced SBA credit subsidy.

-- Consolidating SBA's EWCP into the Eximbank's programs. In recommending that harmonization efforts be evaluated by the two agencies 1 year after their effective date (October 1994), it appears that TPCC may have recognized the potential inefficiencies of continuing both SBA and Eximbank involvement in providing export working capital assistance to small- and medium-sized exporters. Specifically, TPCC suggested that if harmonization efforts were deemed to be unsatisfactory, SBA's working capital program should be consolidated into the Eximbank's Working Capital Guarantee Program.

Despite this directive, TPCC has a limited basis for assessing the effectiveness of either agency's program. As of July 1995, criteria for making this assessment had not yet been developed, and, in the absence of such criteria, it is not clear how this assessment could be made. Among other considerations, such an assessment might be based on the amount of use each program has generated, the default rates encountered, the cost-effectiveness of each program, and the efficiency of the programs. According to a TPCC official, the SBA and Eximbank are currently developing the evaluation criteria with an overall assessment projected to be completed by December.

Consolidating the two programs may go further towards decreasing the possibility of overlapping responsibilities or duplicating operations than harmonization. It may also result in less confusion on behalf of small- or medium-sized exporters, who would only have to deal with one federal agency for export financing.

However, consolidating SBA's EWCP into the Eximbank's program would also present other issues for consideration. These issues include

-- the extent to which banks participating in the Eximbank's Delegated Authority Program would be willing to meet the finance needs of smaller companies by providing export working capital loans that may be less than $833,333 and

-- the amount of budgetary authority that would need to be transferred, given the recent increase in use of SBA's EWCP.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to try to answer any questions you or the Subcommittee may have.

STATEMENT OF
MARTIN A. KAMARCK
VICE CHAIRMAN AND CHIEF OPERATING OFFICER
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND
SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND
BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 7, 1995

Mr. Chairmen, Members of the Subcommittees:

Thank you for the opportunity to appear before the Subcommittees to testify on the Export-Import Bank's (Ex-Im Bank) partnership with the Small Business Administration (SBA) for the working capital guarantee program. I am very pleased and proud to bring the Subcommittees up to date on the harmonized working capital guarantee program as well as on the other improvements Ex-Im Bank has made to assist small business.

Before I discuss the harmonized program, I want to let the Subcommittees know that FY'94 was a record year for small business support by Ex-Im Bank. We anticipate that we will break our own record in FY'95. In FY'94, small business accounted for 12% of total dollar volume, and amounted to $1.7 billion of U.S. exports financed through Ex-Im Bank. Preliminary figures for FY'95 show that small business accounts for 17% of Ex-Im Bank total dollar volume, and amounts to over $2 billion in exports financed.

These results attest to the success of the changes Chairman Ken Brody, the Ex-Im Bank Board of Directors and the staff have put in place in the Bank over the last two and a half years. I am proud to have been a part of the process. With this improved support, we have assisted more small businesses to enter and compete in the global marketplace. But, of course, much more can still be done. We are continuing to actively reach out to the exporting and banking communities and are looking for more and better ways to assist our U.S. small business exporters. In fact, as an unprecedented policy decision, we have asked our Advisory Committee to focus on small business as their only theme for 1995.

I want to commend Maria Haley, the Ex-Im Bank Director designated with the specific responsibility for small business activities of the Bank. Ms. Haley's leadership, persistence, and commitment to small business play a vital role in the success of the Bank's efforts.

Over the past two and a half years, Ex-Im Bank has made small business a top priority. We recognized that the needs of small business are very different from those of large ones. Our goal was to provide a product for small business that was easy to access, easy to use and competitive in the marketplace. We conducted a thorough review of Ex-Im Bank programs and policies and made changes accordingly. We strengthened program support for small business in all stages of the financing cycle. At the same time, we sought out ways to increase access to the Bank, and to increase the number of exporters and lenders.

The Ex-Im Bank-SBA harmonized program is one of the vehicles we developed to meet one of the most pressing special needs of small business exporters: pre-export working capital. The harmonized program makes it easier for an entrepreneur to get ready support for their working capital needs right at home on Main Street. By joining Ex-Im Bank in providing pre-export working capital, SBA adds value to the exporting capabilities of this important segment of the U.S. economy -- small business. We believe reducing the SBA export working capital guarantee coverage below 90 percent may hurt small business and create confusion for small businesses seeking Federal export guarantees. If lenders are not willing to take the additional risk of the lowered guarantee, the real losers will be the small business exporters who truly need the localized support and assistance of both the SBA and their lenders.

The USG Working Capital Guarantee Program

Small businesses face a special problem getting into exporting. Export sales expand their markets and, ultimately, their revenues. To get there, however, they have to pay increased costs for such things as workers, inventory and marketing to make those export sales. They need working capital. Yet bankers do not like to lend against inventory, work in progress or export trade receivables. The export working capital program bridges this gap. Prior to the harmonization on October 1, 1994, the United States Government (USG) operated two similar but separate working capital guarantee programs -- one at Ex-Im Bank and the other at SBA.

Small business found the two programs were ineffective and confusing. From inception of the Ex-Im Bank program until 1992, pre-export working capital financing was available at 90 percent. Banks, however, demonstrated little interest in the program. Bankers complained that the Ex-Im Bank guarantee was too conditional and would not take riskier deals. In March, 1992, then-Ex-Im Bank Chairman John Macomber raised the guarantee level to 100 percent in order to attract more lenders into trade finance. Banks became more involved in the program. During this same time, the SBA Export Revolving Line of Credit program (ERLOC) guaranteed 85 percent of total loan amount.

In 1992, the Trade Promotion Coordinating Committee (TPCC) was given an explicit mandate by Congress to coordinate activities and prevent unnecessary duplication in the Federal export promotion and financing programs In its first Report to Congress dated September 30, 1993, the TPCC recommended that Ex-Im Bank and SBA streamline and harmonize their pre-export working capital guarantee programs for a one year trial period. The TPCC wanted to make the programs more customer-focused and to take advantage of each agencies' comparative strengths. The TPCC also wanted to improve small and medium-sized firm's access to working capital and to encourage private sector financial firms to increase their level of participation in financing exports. The TPCC recommendation also required that the harmonized program be evaluated one year after its effective date. We are now in the final stages of hiring an independent expert to perform the evaluation of the harmonized program. Once that expert gets started, the evaluation should be completed within 60 days.

An important element of harmonization was to agree on a common percentage of coverage for the guarantee. After consulting with bankers, we agreed on a 90 percent guarantee. Ex-Im Bank came down from 100 percent, and SBA came up from 85 percent. Throughout

FY'94, we worked with our colleagues from SBA to develop a streamlined, simplified USG export working capital guarantee program. In addition, we embarked on extensive cross-training of staff, development of uniform applications and accompanying documentation, and for SBA, legislative changes. In September and October, 1994, officials from Ex-Im Bank and SBA conducted export finance seminars in thirteen cities to educate lenders on the improved programs. Approximately 1,300 bankers attended the seminars.

Beginning on October 1, 1994, a single U.S. Government working capital guarantee program was available to a much broader spectrum of lenders and exporters. Applicant's requests are processed by SBA if the guaranteed loan amounts are $750,000 or less and are "SBA qualified" businesses. All other requests are processed by Ex-Im Bank. For Ex-Im Bank, the Working Capital Guarantee Program (WCGP) is a separate, stand-alone program. For SBA, the Export Working Capital Guarantee program (EWCGP) is a small subset of the 7(a) program. The EWCGP represents less that 1 percent of the SBA 7(a) program. The remainder of the SBA 7(a) program is devoted exclusively to domestic financing.

Results of the Harmonized Program

Results of the harmonized program are impressive for both agencies. Since October 1, 1994, the harmonized program has been responsible for providing $328 million of loans to the U.S. small business sector. In FY'95 to date, SBA has approved 156 transactions worth $52 million as compared to FY'94 when 77 transactions were approved worth $27.4 million. In FY'95 to date, Ex-Im Bank has approved 167 transactions worth $276 million, and we anticipate close to $300 million by the end of FY'95. In FY'94, Ex-Im approved 155 transactions worth $180.6 million. Thus, we anticipate increased use of the harmonized program in FY'95 will result in an increase of 66 percent from FY'94 in the total dollar volume of working capital guarantees by both agencies.

In addition, fifty three lenders from twenty two states and the District of Columbia have qualified and are acting as delegated authority lenders for Ex-Im Bank. Qualified lenders can commit up to $2 million per borrower without case-by-case approval from Ex-Im Bank.

The Impact of Reducing the Guarantee at Ex-Im Bank

The Ex-Im Bank Board of Directors will be in a difficult position if the SBA working capital guarantee is reduced below 90 percent. If the Ex-Im Bank Board seeks to comply with the Congressional mandate and TPCC recommendation to coordinate activities and prevent unnecessary duplication in the Federal export promotion and financing activities, the Ex-Im Bank working capital guarantee would have to be available at the same rate as SBA -- 75% for transactions over $100,000 and 80% for transactions under $100,000. If the Ex-Im Bank Board chooses to be responsive to the Bank's customers, especially based upon previous lending experience, the Ex-Im Bank working capital guarantee would have to remain at 90%.

The Impact of Reducing the SBA Guarantee on Small Business and Banks

We believe exports by small business will be disproportionally reduced if SBA's guarantee is lowered to 80 percent for loans of up to $100,000 and 75 percent for loans above $100,000.

Reducing the level of cover will reduce the volume of exports because assets based on export loans are particularly troublesome for many local and regional banks. Small exporters typically use their local or regional lenders to assist in securing their export working capital needs. Such lenders are generally not knowledgeable of, nor willing to assume the risks, associated with the underlying foreign accounts receivables.

Based on our discussions with lenders, we are concerned many small business export working capital transactions will be denied by local and regional lenders because of the lower guarantee coverage. Many lenders have an aversion to taking foreign risk. Domestic risk is easier to quantify for local and regional lenders. Moreover, domestic risk is perceived by these lenders as less risky than export working capital. Requiring small and regional lenders to assume more than 10 percent of the risk may reduce the funds these lenders are willing to provide to small business exporters.

In addition, for lenders, the percentage of cover provided by the United States Government is a key factor in determining the cost and profit margin of a transaction. While small business working capital requirements tend to be relatively small in dollar amount terms, e.g., $25,000 - $500,000 , the amount of expenses/overhead devoted to a small transaction is the same as it would be for a larger transaction, e.g., over $2 million. Lenders choose how to allocate their resources based upon likely return of one transaction versus another. Unless the costs are reasonable to assure that a minimum return is earned, the lender will almost always choose the larger deal. Thus, as coverage is reduced, the lenders' requirements for return increases.

Reducing the cover to 75-80% is very likely to adversely affect a lender's willingness to provide the necessary financing.

In short, returning to the "two program mode" less than one year after the harmonized program began will seriously undermine the seamless, efficient and harmonized USG program which Congress and the Administration have worked hard to establish. Furthermore, any reduction in the percent of coverage offered by SBA will render the SBA program less attractive from a lender's perspective and will bias small business users toward using the Ex-Im Bank program -- or to not financing smaller transactions. However, with only five regional offices, Ex-Im Bank does not, and will not, have SBA's capacity to meet the pre-export working capital needs of small business exporters.

Conclusion

Ex-Im Bank and SBA have come a long way during the last two and a half years to make pre-export finance market competitive, easy to access and user friendly for small business. If SBA offers a 75 or 80 percent working capital guarantee for export transactions, we will be revisiting the problems we sought to solve several years ago. Mr. Chairmen, I welcome the opportunity to discuss this matter with you and the members of the Subcommittees, and, I am happy to answer any questions.

Reinventing Ex-Im Bank

FACT SHEET

WORKING CAPITAL GUARANTEE PROGRAM

## BACKGROUND

Ex-Im Bank's Working Capital Guarantee Program encourages lenders to make short-term loans to U.S. businesses for various pre-export related activities. The program facilitates the expansion of U.S. exports that otherwise would not occur. It helps small and medium-sized businesses that have exporting potential but need working capital funds to produce or market goods or services for export. Ex-Im Bank will consider applications from exporters directly or from lenders where the lender certifies that the loan would not be made without Ex-Im Bank's guarantee and Ex-Im Bank determines that the exporter is creditworthy and has an ability to perform. The exporter may use the guaranteed financing to purchase finished products, or materials or labor to produce goods or services for export; to cover stand-by letters of credit, and bid or performance bonds; or fund certain marketing activities when sufficient collateral and cash flow exist.

## REINVENTING EX-IM BANK IMPROVEMENTS

In order to increase utilization of the program and Ex-Im Bank's support of small business, we are making several substantive changes. The two keys to increased support are an expansion of the authority of lenders to commit working capital guarantee loans without Ex-Im Bank's credit review (delegated authority) and improvements to the guarantee that Ex-Im Bank extends to lenders.

- Increased external delegated authority under a two-tiered system effective October 1, 1994: (i) "A" level lenders will have $2 million (Ex-Im Bank liability) in delegated authority per borrower on a cumulative basis; and (ii) "B" level lenders will have $1 million (Ex-Im Bank liability) in delegated authority per borrower on a cumulative basis.

- Institutional caps on lenders with delegated authority: (i) "A" level lenders will have an institutional cap of $25 million (Ex-Im Bank liability); and (ii) "B" level lenders will have an institutional cap of $10 million.

- Reduction in coverage to 90% of principal and interest for all transactions effective October 1, 1994 to mitigate the risk associated with increased levels of delegated authority and to harmonize Ex-Im Bank's program with the Small Business Administration's program.

- Two incentives for lenders to use delegated authority effective October 1, 1994: (i) allow lenders to collateralize separately their 10% risk retention for all delegated authority transactions; and (ii) allow lenders to retain 100% of the 1.5% facility fee for delegated authority transactions over $750,000 of Ex-Im Bank liability. For delegated authority transactions under $750,000 of Ex-Im Bank liability, the lender will be allowed to retain 1.25% of the 1.5% facility fee and remit .25% to Ex-Im Bank.

- Increased transactional amount under the Priority Lender Program to $5 million. Ex-Im Bank provides a turnaround time of 10 working days for applications submitted by priority leaders.

- Revised the guarantee agreement with a minimally conditional "master" guarantee and a separate borrower agreement.

- Increased internal delegated authority to the vice president and deputy vice president of the U.S. Division to $5 million.

- Changes affecting collateralization requirements for all transactions: (i) clarified that disbursements of up to 100% against the value of inventory purchased pursuant to the borrower's export contract are possible; (ii) reduced the collateral value required for bid or performance bonds, or stand-by letters of credit to 50% of the amount of such bond or stand-by letters of credit; and (iii) for transactions under $1 million in lieu of semi-annual collateral inspections, permit the lender to rely exclusively on standardized monthly borrowing certificates executed by the borrower.

- The Private Export Funding Corporation has agreed to be a liquidity source for lenders and to establish a "lender of last resort" program to fund preliminary commitments for which exporters are unable to obtain financing from commercial sources.

Effective Date: Immediately.

For more information, contact Sam Z. Zytcer, 202-566-8820.

U.S. Small Business Administration
Washington, D.C. 20416

TESTIMONY OF

SMALL BUSINESS ADMINISTRATION

CASSANDRA M. PULLEY

DEPUTY ADMINISTRATOR

before the

SUBCOMMITTEES ON GOVERNMENT PROGRAMS

AND

PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON

THE SMALL BUSINESS ADMINISTRATION/EXPORT-IMPORT BANK

EXPORT WORKING CAPITAL PROGRAM

September 7, 1995

Mr. Chairmen and Members of the Subcommittee, thank you for inviting me to testify on harmonization of the Export Working Capital Program (EWCP) of the Small Business Administration (SBA) and the Export-Import Bank (Ex-Im Bank).

Exports are making an increasingly important contribution to America's economic growth. Since 1989, exports accounted for 70 percent of the growth in our economy. Unfortunately, compared to our major competitors, the United States remains an export under-achiever. One reason is simple -- too few U.S. firms export. A 1987 Census Bureau study found that 50 firms accounted for 43 percent of all U.S. exports and that only 10 percent of U.S. firms export regularly. These figures suggest that there is great potential for export growth among U.S. small businesses.

Earlier this year the House Small Business Committee heard from three former SBA Administrators about their experiences at the Agency and their opinions about the success of its programs. The former Administrators concluded the hearing by remarking that our nation's ability to overcome trade deficits rests firmly with the success of small business exporters and that SBA's international trade program can play an important role in that success.

This Administration has worked hard to provide small businesses with the tools they need to succeed in the international marketplace because it understands that small businesses are vital to the health of the U.S. economy. Historically, one of the most significant obstacles small business exporters face is a lack of financing. Study after study indicates that small exporters in this country have a very difficult time obtaining trade finance. Unfortunately, many banks perceive smaller trade loans to be too risky and time-consuming -- particularly transactions under $1 million. Yet, deals of this size are precisely the kind exporters need help with the most.

Over 1,000 participants in the June 1995 White House Conference on Small Business, recognizing the need for government-supported export financing, called on Congress and the President to authorize SBA and Ex-Im Bank "to sponsor revitalized fund programs designed to foster the financing of international trade, including the new Export Working Capital Program."

Government-supported export finance assistance can have a significant economic development impact. The Department of Commerce estimates that for every $1 million of exports, 20 new jobs are created. California's Export Finance Office estimates that for every dollar of export finance assistance, there is a seven-fold return to the American economy.

While the statistics are revealing, even more telling is the impact exports have on the employment and health of individual small businesses. Let me give you one example. CCA

Electronics of Atlanta, Georgia, manufactures radio broadcast transmitters. The company has been in business for over 30 years and has grown to 45 employees. Although CCA exports worldwide, the company encountered problems financing the production of large international contracts. The company turned to the SBA and received a $400 thousand EWCP loan. Exports now account for up to 60 percent of the company's sales. According to Ronald Baker, president of CCA, "If we didn't have the SBA's EWCP, we would have been out of business a long time ago. The EWCP is essential for small businesses."

The objective of SBA's Export Working Capital Program is simple -- to increase small businesses' access to capital by helping those who are capable of exporting but might not qualify for conventional balance sheet financing. Modeled after Ex-Im Bank's and California's successful export finance programs, the EWCP is transaction-based. That means rather than focus on the exporter's balance sheet -- as would be the case with a regular 7(a) business loan -- the credit decision is based on the strength of each transaction. By focusing on specific transactions, SBA can reach an important segment of the small business community that may not have much to collateralize a loan (beyond the export inventory and receivables), but who nonetheless are very capable of exporting successfully.

Even though SBA is helping small businesses that might not qualify for conventional financing, we are doing so at little risk to the taxpayer. The experience of Ex-Im Bank and California's program indicates that trade finance can be very low risk, with losses around one or two percent. Although SBA's own experience under the new program is limited, there are strong indications that losses will be minimal. Because EWCP loans have maturities of 12 months or less, a significant number already have matured and been repaid. So far this year, SBA's program has had no defaults.

An important benefit to this transaction-based approach is its strategic business development impact. By working with small businesses one deal at a time, SBA can help them establish successful track records in exporting. With one or two successful transactions under their belts, exporters are much more likely to be viewed as "bankable" by conventional lenders and, as their working capital needs increase, exporters can smoothly transition to the higher dollar value programs of Ex-Im Bank.

Status of EWCP Pilot

Two years ago, the President's Trade Promotion Coordinating Committee (TPCC), made up of the 19 federal agencies with export responsibilities, identified three essential ingredients that small business exporters need to be successful -- access to capital, trade leads, and expertise. The SBA has reshaped its international trade program to respond to each of these needs. In so doing, the agency has been careful to ensure that the programs SBA delivers do not duplicate the services provided by other agencies within the government, and we have worked hard to assure that we strengthen our public/private partnerships to deliver the best possible programs in the most cost effective way.

Last year the SBA, pursuant to Public Law 103-403, redesigned its export loan guarantee program. That program, authorized as part of the 7(a) regular business loan program, provides small businesses with the working capital necessary to support their export transactions. On October 1, 1994, the SBA and Ex-Im Bank announced the new Export Working Capital Program (EWCP), and began its operation on a pilot basis. The new program, in conjunction other SBA loan programs available to exporters, makes it much easier for many small firms to obtain the financing they need to export -- be it working capital, fixed asset financing or, as is often the case, a combination of the two.

The SBA's Export Working Capital Program:

- Is "harmonized" with Ex-Im Bank's working capital program to provide seamless service for small businesses as their export financing needs increase.
- Offers a single, one-page application that lets the exporter apply either to the SBA or Ex-Im Bank, depending on the amount requested. The SBA guarantees amounts up to $750,000, Ex-Im Bank handles larger amounts.
- Offers a 90 percent guarantee and uniform lending policies, guides and instructions, which simplifies the process for our lending partners.
- Provides speedy turnaround and faster service, usually three to 10 days, through a nationwide network of district offices and SBA trade finance specialists in each of the U.S. Export Assistance Centers.
- Makes available preliminary commitments (PCs) to exporters, where the SBA reviews the loan application and offers its guarantee up front. This gives

lenders an assurance that SBA will back the loans if a lender agrees to the terms and conditions set out in the preliminary commitment.

- Allows exporters to finance standby letters of credit.

To ensure the success of the Export Working Capital Program, SBA has given its field offices aggressive goals for both the EWCP and other export-related loans. (The latter includes all 7(a) loans to small business exporters. Although export-related loan proceeds may be used for domestic purposes as well as exporting, the figure indicates the total number of exporting firms supported by SBA's financial assistance.)

So far, the results are encouraging. SBA has approved 156 Export Working Capital loans, worth nearly $52 million. This is more than double the number of EWCP loans approved all of last year. In addition, the agency has approved 46 preliminary commitments, many of which could convert to final commitments before the end of the fiscal year. SBA has approved nearly 1,600 export-related loans so far this year. Our goal is for an increase of nearly 50 percent over the record 1,161 loans made last year and more than 100 percent over the record 757 loans just two years ago.

In addition:

- SBA is working with a number of state economic development and financing agencies to establish cooperative agreements which will allow us to co-guarantee state government backed export loans to small businesses. This will help both federal and state governments leverage valuable and limited resources. SBA currently has agreements with the states of California, Florida and Kansas.

- The SBA has trained over 260 field staff nationwide on export financing, in addition to approximately 30 of our resource partners. SBA also has added a half-day Export Working Capital training component to the advanced credit training course that all SBA loan officers must pass to attain the greatest loan approval authority.
- In cooperation with Ex-Im Bank, the SBA participated in a series of one-day seminars in 13 cities to explain our new programs to the nation's commercial lenders. These were no-nonsense, information-packed sessions demonstrating that the EWCP program can be profitable for the banks and their small business clients. Approximately 1,300 attended, mostly lenders.
- The SBA is working closely with the Small Business Committee of the Banker's Association for Foreign Trade (BAFT) to get feedback on how the program is working and to develop recommendations for improvement.

Clearly, the combined performance of the EWCP and Ex-Im Bank's export working capital program show that we have dramatically increased the financial help available to this country's exporters. While the Agency is moving in the right direction with these program improvements, it is just a beginning. SBA will not be satisfied until it is just as easy for a small business to get a loan to export as it is to get a loan for domestic business.

U.S. Export Assistance Center (USEAC) Role in Export Finance

U.S. Export Assistance Centers, part of a TPCC initiative, are new "one stop" shops for exporters. The SBA is a fully committed partner with the Department of Commerce and Ex-Im Bank at the USEACs. The first four USEACs opened early last year in Miami, Chicago, Baltimore, and Long Beach, California. Since that time, we have opened USEACs in Seattle, Cleveland, Dallas, Denver and St. Louis. By the end of the calendar year, USEAC offices will open in New York City, Philadelphia, Atlanta, Boston, Detroit and New Orleans. As a result, small business owners can walk into a single location, get export counseling and advice, apply for a loan, receive a preliminary commitment from the SBA and then get help finding an appropriate lender for their transactions.

The services that the SBA provides at the USEACs are focused on financing for export-ready firms (those that are exporting or have made the decision to begin exporting), and providing information and education for new-to-export businesses (those that have not previously considered exporting). With the creation of the USEACs, the SBA has developed a cadre of trained export finance specialists located around the country whose primary mission is to provide export finance assistance.

In addition to the USEACs, the SBA is able to support small businesses through its nationwide network of resource partners. Business counseling, technical assistance and financial assistance for small business exporters are available through the SBA's extensive network of district offices, a network of 7,000 commercial lenders, and the SBA's resource partners such as the Service Corps of Retired Executives (SCORE) and Small Business Development Centers (SBDCs). The scope of our resource partner network is unmatched anywhere in the public sector. There are over 13,000 SCORE members and a network of over 900 SBDCs to deliver the SBA's programs to the small business community.

Need for 90 Percent Guarantee

Although there is a significant increase in EWCP loan volume, relatively few lenders make trade finance loans of under $1 million. While a typical SBA lender is willing to finance smaller loans, it often has little or no international banking expertise. Without some additional incentive, SBA lenders see little reason to take on the additional time, effort and perceived risk that many believe accompany trade finance loans. SBA's USEAC staff have spent considerable time informing local community and regional bankers about the opportunities and benefits of offering export financing for their small business customers. We are now starting to see results. In FY 94, SBA had 62 participating lenders in its Export Revolving Line of Credit program. Thus far this year under the new program, 149 lenders have signed participation agreements, an increase of over 140 percent.

Because banks perceive export transactions to entail greater risk, SBA and Ex-Im Bank offer a 90 percent guarantee on their export working capital loans. This is consistent with most state export finance programs, including California, Florida, Kansas and Maryland.

An enhanced guarantee is particularly important for SBA, because EWCP loans are short-term and cannot be sold in the secondary market. Unless there are other incentives, this makes them relatively less profitable than conventional 7(a) loans. To ensure that the program is profitable for lenders, in addition to a 90 percent guarantee, SBA has adopted Ex-Im Bank's practice of monitoring -- but not regulating -- lenders' fees and interest rates. By allowing lenders to establish their own fee policies, we have addressed one of the most often cited reasons why lenders do not offer trade finance for small businesses -- lack of profitability.

Of course SBA is concerned with the impact a 90 percent guarantee will have on the agency's credit subsidy rate and our overall lending authority. However, the budgetary impact of a 90 percent guarantee for EWCP loans is minimal. Because EWCP loans make up less than one percent of the overall 7(a) portfolio, we estimate that the 7(a) subsidy rate for FY 1996 would remain at its present level and that the weighted average guarantee percent would be only marginally affected. That combined weighted average would be well within the Office of Management and Budget's (OMB) recommended limit of 80 percent for the SBA's business loan program.

Conclusion

Mr. Chairman, the SBA, Ex-Im Bank and our other TPCC partners are working together to provide a comprehensive array of services to the exporting community. Through

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the USEACs and the recently harmonized Export Working Capital Program, we are well on the way to providing small businesses with the support they need to succeed in international markets. Allowing SBA to continue offering a 90 percent guarantee for EWCP loans, which Congress authorized only last year, will have an insignificant impact on the overall 7(a) program subsidy rate, is consistent with the recommendations of the 1995 White House Conference on Small Business and sends a strong signal of support to this nation's small business exporters.

Thank you very much for the opportunity to testify today. I will be happy to answer any questions you may have.

SBA U.S. Small Business Administration
Office of International Trade

*Information Summary*

# Export Working Capital Program

## A New Program to Help You Bank Your Export Deals

The U.S. Small Business Administration (SBA) is offering a new program to provide the working capital you need to complete your export sales. The Export Working Capital Program (EWCP), which replaces SBA's Export Revolving Line of Credit, now offers more flexible terms, low fees and a quick turnaround on the loan decision — things you need to compete in today's fast-paced international marketplace.

**The Program**

The EWCP supports export financing to small businesses when that financing is not otherwise available on reasonable terms. The program encourages lenders to offer export working capital loans by guaranteeing repayment of up to 90 percent of a loan amount. A loan can support a single transaction or multiple sales on a revolving basis.

The EWCP covers pre-shipment working capital, post-shipment exposure or a combination of the two.

- **Pre-shipment Loans** can be used to: 1) finance the manufacture of goods for export, or 2) purchase finished goods or services for export. The term of these loans is usually no more than 12 months.
- **Post-shipment Loans** can be used to finance receivables resulting from export sales. The term for these loans is generally six months or less.
- **Combination Loans** can be used to finance both the acquisition or production of export goods and services and the resulting accounts receivable. The maximum term for these loans is 18 months, with the post-shipment portion not to exceed six months.

EWCP loans also can be used to support stand-by letters of credit used as bid bonds, performance bonds or payment guarantees to foreign buyers. EWCP loans may not be used to establish operations overseas, acquire fixed assets or pay existing debt.

Interest rates are negotiable between the applicant and the lender. SBA charges the lender a guarantee fee of one-quarter of one percent (.25 percent) for loans of 12 months or less. The guarantee fee for loans with terms of greater than 12 months is 2 percent.

**Credit Requirements**

SBA considers several factors in reviewing an EWCP application:

- Is the transaction viable?
- How reliable is the repayment mechanism and source?
- Can the exporter perform under the terms of the deal?

**Collateral**

EWCP loans are transaction based. The primary repayment source is the collateral associated with an individual deal or a series of transactions.

Collateral may include export inventory, foreign receivables, and assignments of contract and letter of credit proceeds. Personal guarantees usually are required to support the credit.

**Eligibility** To be eligible for a guarantee under the EWCP, you must meet SBA's size standards. The standards vary by industry and are determined by either the number of employees or the volume of annual receipts. Check with your local SBA district office to determine if your company falls within the small business size standards. You also must have been in business — not necessarily exporting — for at least 12 continuous months before filing an application.

Service exports are eligible for EWCP financing but may require progress payments and additional collateral. Businesses that do not directly export but can show that they manufacture or sell products or provide services that are exported by others are eligible for EWCP financing.

**How to Apply** You can access the EWCP in one of two ways. If you are already working with a bank, you can request that your lender apply for SBA's guarantee. If you need help finding a lender to make an SBA-guaranteed EWCP loan, you can apply to the SBA for a preliminary commitment (PC). The 60-day PC states that SBA will provide the guarantee under the specified terms and conditions, and, with it, you can find an interested bank.

The lender — or the exporter if a PC is sought — should submit to SBA a completed EWCP application (Form 4EX), along with:

**Background**

- Brief resumé of principals and key employees;
- History of the business and copy of business plan, if available;

**Transaction(s)**

- Explanation of the use of proceeds and benefits of the loan guaranty, including details of the underlying transaction(s) for which the loan is needed;
- Copy of the letter(s) of credit and copy of buyer's purchase order or contract;
- Foreign credit insurance-related material (policy, application, buyer credit limit), if applicable;
- Copy of validated export license, or copy of application for export license, if required;

**Financial Information**

- Business financial statements (balance sheet and income statement) for the last three years, if applicable;
- Interim financial statement(s) dated within 90 days of the date of the application filing;
- Aging of accounts receivable and accounts payable, as of balance sheet date;
- The most recent federal and state income tax returns for the business;
- Schedule of all principal's/officer's/owner's compensation for the past three years and current year to date;
- Personal financial statement(s) of the major shareholder(s)/partner(s) of the company (owning over 20 percent) and their most recent federal income tax return; and
- Monthly cash flow projections for the term of the loan, highlighting the proposed export transaction.

For more information about the EWCP, the SBA has offices located throughout the country. For the one nearest you, consult the telephone directory under "U.S. Government," or call the Small Business Answer Desk at 1-800-8-ASK-SBA, (202) 205-7064 (fax). For the hearing impaired, the TDD number is (202) 205-7333. SBA publications are available through SBA OnLine, SBA's computer-based electronic bulletin board. To access SBA OnLine call 1-800-697-4636. You may also contact a U.S. Export Assistance Center. Call the SBA Office of International Trade (202) 205-6720 for the number of the center nearest you

**TRIPLE I CORPORATION**

**Dr. Juan J. Amodei**
Chairman & CEO

September 21, 1995

Dear Mr. Chairman:

I am writing this Statement for the Record to bring to your attention my suggestions and our Company's experience with export financing issues, and particularly the SBA/Eximbank Export Working Capital Guarantee Program. As an experienced CEO with a technology background, I am well aware of the many issues that affect the all important balance of trade of the United States, and I believe that export financing is at the top of the list of areas where the US Government can have a major impact in improving our performance. The recently established SBA/Export Working Capital Guarantee Program represents one of the most creative and effective initiatives that I have seen in this area. It goes a long way towards implementing the many recommendations that have been made in the past by the Associated Industries of Massachusetts and others to help in the exporting of US products in a competitive world market. It does this by addressing a critical deficiency of the private sector and leveling the playing field faced by small companies in the international market.

In spite of the strides that have been made by our foreign competitors, innovation in technology and new products is still the hallmark and major strength of the American enterprise. Much of this progress is attributed to the smaller size companies, where agility, motivation and dedication are less likely to be stifled by complex and unwieldy corporate structures. It is in this area where our greatest opportunity to increase exports and stake out our share of the markets of the future lies, but it is also here where the largest obstacles, practical and bureaucratic, are found. As a nation, we have recently made progress in easing the restrictions that discourage high technology exports to many regions of the world where our foreign competitors were free to stake their claims, and we now have an opportunity to continue and enhance a program that removes the major financial barrier to export growth in the most fertile area of our economy, small and medium size enterprise.

Small businesses are the ones that lay the foundations for the major new markets of the future, through innovative product development and agile and flexible market development. Emerging companies, however, are saddled by constraints in their ability to obtain working capital through standard means, such as bank borrowing, because of lack of asset base and track record. This inability prevents them from rapidly introducing successful

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new products in the world market place, especially at a time in the companies' development when this is critical to ensure rapid growth and a strong market position. The existing Eximbank programs, while extremely effective and well thought-out, lack the broad accessibility and rapid reaction time that often makes the difference between success and failure in this area. The SBA/Eximbank Export Working Capital Guarantee Program is an ideal extension of some of the more successful Eximbank initiatives, which can now benefit a much broader spectrum of U.S. companies. It is a rapid reaction capability that enables the small company to fill their orders on a transaction by transaction basis, ***ensuring fruition where success has already been proven competitively*** by the winning of the order. In so doing, this program will not only be able to make a major contribution to export, and therefore our balance of payments, but it will also nurture the growth of the very industries that will maintain our competitiveness of tomorrow.

Our Company, Triple I Corporation, located in Lowell, Massachusetts, and employing 20 people at present, designs and manufactures automated optical inspection systems for the electronic industry. Early in 1995 we were faced with the need for capital to manufacture and ship against over $1 Million worth of foreign orders. The largest of these orders, which required the highest amount of working capital, was for close to $500,000 for an automated optical inspection system for Ericsson of Sweden. We learned of the SBA program through a seminar sponsored by the Commerce Department and promptly applied for a loan to cover this transaction. The response and guidance that we received from the local SBA office was exemplary in timeliness and helpfulness, not only in matters pertaining to the government side, but also to those dealing with the lending institutions that would be involved in this program. In fact, it was the private lending institutions that were responsible for the majority of the bureaucratic delays and paperwork that we encountered in completing the transaction. Mr. John Joyce, who is the officer in charge at the local office in Boston, personally helped and advised the Company through these negotiations. Thanks to the program, we were able to borrow $200K, which allowed completion of the system for shipment to Ericsson, and immediate repayment of the loan. Without the 90% guarantee from the SBA program our company found it impossible to get bank financing to cover parts and direct labor to build equipment for this transaction. This is particularly damaging when we consider that our major foreign competitors have access to generous export loan programs, in many cases indirectly subsidized by the US taxpayer.

It should be noted that, without the guaranteed loan, this critical order would not have been built on schedule and would probably have been cancelled, with dire consequences for our competitive position in Europe and our reputation worldwide. We view the availability of such a program as playing a major role in the projected growth of our company in the next two years, from about $2 Million in yearly sales today to over $20 Million by 1997, with the corresponding rise in employment. We also see this as being critical to position our Company globally to become a leader in the broader field of automated vision for industrial applications. This market should grow to the billion dollar level in a few years, because it is critical to quality control and productivity for the manufacturing industries of the future.

Because of the above, I strongly urge the Subcommittee to consider not only continuing funding of this program, but expanding and strengthening it so that it may become a significant weapon in our international competitive arsenal. Properly administered, the program should be extremely effective and almost self-supporting, while reaping enormous indirect benefits to the country through increase in employment and economic activity. The value of the SBA Export Working Capital Guarantee program can be further enhanced by reducing the time to process loan applications; encouraging private lenders to forego the standard criteria used for evaluating asset based loans that are not guaranteed ; and simplifying the legal documentation required to close a transaction. These are transaction based loans with very quick turnaround and very large social payoff in immediate employment gains and competitive benefits, they should be recognized as such and freed from the costly and time-consuming legal burdens associated with more conventional and riskier longer term lending.

Thank you for this opportunity to submit this statement.

Respectfully submitted,

Dr. Juan J. Amodei

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TESTIMONY OF

MS. PHYLLIS A. PRICER

FOR
THE NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS

BEFORE THE

COMMITTEE ON SMALL BUSINESS
U. S. HOUSE OF REPRESENTATIVES

ON THE

EXPORT WORKING CAPITAL PROGRAM
AND
THE 7A PROGRAM

SEPTEMBER 6, 1995

Testimony of Phyllis A. Pricer
for the National Association of Women Business Owners
before
The Committee on Small Business
U.S. House of Representatives
September 6, 1995

Mr. Chairman and members of the House Small Business Committee. My name is Phyllis Pricer, and I am submitting this written material to your Committee in lieu of being able to speak before you this day. I am a member of the National Association of Women Business Owners (NAWBO), and also a member of the Board of the Capital Area Chapter of NAWBO. The organization has 50 chapters in the United States, and represents the interests of America's 7.7 million women business owners. I am president of AMCI-Allied Medical Consultants, Inc., a health care management, quality assurance and provider staffing firm. We provide professional health care services to federal and state government medical facilities, as well as the private medical industry. We have recently developed two innovative medical health care training programs for both family care givers and home health aides which we hope to export to other countries.

I am writing today to urge you to keep the Export Working Capital Program which is administered by the U.S. Small Business Administration. Many small and medium sized businesses have been able to utilize this program to obtain working capital and/or a line of credit to expand their businesses to the overseas market place. Without this program, many small businesses would have no chance to break into the international market place. Foreign governments and their banking industries have been and continue to be aggressive in promoting and financing the export of goods and services for their small and medium sized companies.

The creation of jobs for the future lies within the small and medium sized business community. The world is shrinking at a remarkable rate as far as business and communication is concerned. Without financial opportunities being provided to enable and encourage U.S. small businesses to take advantage of international business opportunities, the United States economy will be the loser. Over the past decade, women have surged into entrepreneurial ownership at twice the rate of men. Women now own one-third of all the small businesses in the United States. A good majority of women owned businesses are service based. Service based industries are one of the most difficult, if not the most difficult industry in which to attempt to obtain capitalization.

From a woman business owner's perspective, banks are not knowledgeable about service based industries. Each time I have had to approach a bank for any kind of loan or line of credit, I found it necessary to educate the banker. And, I have found with few exceptions, banks would not seriously consider a loan to my company because we are in a service industry. Last year, the U.S. realized a gross of over $60 billion income from the export of service based industries.

Another woman business owner, who is Chinese, has tried for about 10 years to develop overseas export business with China in the medical equipment and supplies arena. She has been unable to do so because she cannot get the financing which would enable her to competitively enter the market place. Yet another woman business owner has also taken 10 years to develop international business clients. For years she attended meetings and conferences held overseas, such as those sponsored by the World Association of Women Entrepreneurs in order to meet and develop international business contacts. Obviously, most small businesses are unable to pursue this option.

Over 75 percent of the work force in the U.S. is employed in service industries. According to data collected from the Bureau of Labor Statistics, employment in the U.S. is projected to increase by almost 25 million over the next 15 years, with almost all of the new jobs in the service sector. For example, the medical health care industry will be leading the way through the year 2005 with the fastest increase of any other occupational group.

Increasingly, small businesses are interested in moving into the international arena to take advantage of the trade agreement treaties such as GATT. Without the SBA Export Working Capital Program, most small and medium sized businesses cannot hope to enter the global market place.

The SBA loan programs have been exceedingly beneficial to us, the small business community. Their delivery system has been developed with a view to meet the specific needs of small and medium sized businesses and they have succeeded by virtue of their commitment to servicing the small businesses, wherever they are. The SBA export center program is only a year old, and already it has had a positive impact upon small businesses entering the global market place. The following is an example of the positive effect this program, in its present form, has had on a mid-Western company. This company, the Western Sunflower Company of

Colby, Kansas, has gone global ... with assistance from SBA's Export Working Capital Program.

Western Sunflower was established in 1989 with four employees. Today it mills, bags, and exports nearly five million pounds of specialty sunflower seeds a year and employees 20 full-time employees. It has plans to hire 10 more before the end of this year. According to the firm's president, Al Gerstner, this makes the company one of the top three or four private-sector employers in this mid-Western town of approximately 6,000 citizens. The company wasn't engaged in exporting until SBA's EWCP opened the door to the international marketplace. Western Sunflower applied for and received an export working capital loan for $575,000. Now, approximately 90 percent of the company's sales are attributed to exports worth more than $2 million. According to Gerstner, "The bank feels more comfortable knowing the loan is guaranteed by SBA ... This is an excellent program with a quick turn around."

Small firms try to obtain financing on their own, and cannot do so. The banks are not interested in small ventures. To banks, such ventures are fraught with risk, to say nothing of providing a low rate of return. Banks dealing with international financing are almost exclusively interested in the big companies. Coastal banks have, of course, more experience in international financing than their peers in the mid-West, which is why the SBA Export Working Capital Program was such a boon to the Kansas firm of Western Sunflower.

In the case of my own company, without the SBA loan guarantee, I would not have been able to develop a home health care training program which is being readied for export to countries such as Russia, India and some South American countries. Banks are not willing to consider a loan for service related industries unless a company has placed collateral worth as much as five times the amount of the loan requested. How many small, or even medium sized companies could meet that kind of loan requirement? I know that I cannot afford to do so.

Here is another example of an SBA EWCP success story. A small Louisiana company, Southeast Wholesale Seafood Corp, established in 1984, is a company that has 15 employees in the New Orleans area. This company attributes 50 percent of its frozen seafood sales to exporting, primarily to Canada and Taiwan.

After having problems finding available working capital, this company received assistance from the EWCP in a guaranteed loan for

$800,000 to meet their pre-shipment exporting needs. The company's president, Binh X. Do, expects the value of their export sales to reach $5 million in 1995 and anticipates exporting to Hong Kong. The loan due to SBA's EWCP will allow his company to grow and employ more people.

The SBA program provides a 90% guarantee on loans and lines of credit. I would respectfully urge this Committee to recommend retaining the 90% SBA loan guarantee. Without this favorable rate, most small businesses would have no chance at all of entering into the international market place. Due to their economic status, historically, most women business owners have less collateral than their male counterparts.

Lowering the guarantee rate to 70 or 80% would allow the banks to increase their collateral requirements to a prohibitive level, thus effectively choking off any hope of small businesses being able to compete in the global market place. The Export Working Capital Program is an excellent vehicle to assure that small business have a fair chance at entering the global market place, and enhances the opportunities to live the American dream through entrepreneurship.

I would like to finish this written testimony with the following statement. In June of this year, I was honored to be one of Virginia's elected delegates to the 1995 WHite House Conference on Small Business. At that conference, more than 2000 delegates, from across the United States, representing all small businesses, voted in support of Recommendation 129, which reads as follows:

"Congress and the President authorize and encourage the EX-IM Bank and the SBA to sponsor revitalized fund programs designed to foster the financing of international trade, including the new Export Working Capital Program." We need the continued support of this SBA program.

Thank you for this opportunity.

SouthTrust Bank
of Alabama, N.A.
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International Department

SouthTrust Bank

September 12, 1995

Honorable Donald Manzullo
Chairman, Subcommittee on Procurement, Exports and Business Opportunites
Small Business Committee, House of Representatives
B-363 Rayburn House Office Building
Washington, DC 20515

SUBJECT: Small Business Credit Efficiency Act of 1995

Dear Chairman Manzullo:

Thank you for the opportunity last September 7th to testify before the joint subcommittee meeting of the Subcommittee on Government Programs and the Subcommittee on Procurement, Exports and Business Opportunities regarding the Small Business Credit Efficiency Act of 1995 and the provision for the reduction of guaranty coverage in the SBA Export Working Capital Guaranty Program (EWCGP). I do hope that you and the other committee members will take a few extra moments to reflect upon the written and oral testimony on this issue prior to your final determination. It was apparent to me from the concluding commentary by the respective members present that there are some misunderstandings and, perhaps, some lack of communication on certain aspects of the EWCGP. Thus, I would like to afford myself this opportunity for additional comment per your invitation to keep the record open for an additional thirty days:

1. **EWCGP Lending is Tied to Specific Projects:** in the concluding comments, it was noted that most of this lending is for specific projects and, therefore, of low risk. It was further commented that banks will thus continue to support these transactions even with a lower guaranty rate given the low risk of these transactions. First, the record will show that the opposite is true. That is, most of this lending is in support of *ongoing* facilities for the financing of export related inventory and receivables. These facilities are typically renewed on an annual basis. Regardless, the risk of default is little different for specific transactional lending than for ongoing line facilities. The key risk is, firstly, the exporter's ability to successfully perform under export sales contract(s) and subsequently collect on the foreign invoices. Secondarily, in the event of non -performance by the exporter or the inability to collect on the invoice(s), the risk centers on the ability to quickly and readily liquidate the collateral for an amount adequately covering the lender's exposure. The risks are genuinely high regardless if the exposure is project related or ongoing as in both structures the risk is largely performance related (and commonly the

risk qualification centers on non-financial performance criteria -- such as engineering -- where bankers are notably ill-equipped to accurately assess the risks).

2. **The Collateral is Easily Identified and Perfected**: during concluding comments it was noted that through prior legal experience from closing commercial loans, one can conclude that the process for the identification, monitoring and legal perfection of the lender's claim in *export* inventory/receivables collateral is likewise simple and effective. The contrary, however, is much truer in the case of small business export finance. The primary collateral is pre-export inventory and foreign receivables. The inventory is frequently work-in-process having little, if any , ready liquidation value until in final form. Furthermore, in virtually all export transactions, there is a significant stage of inventory-in- transit. Goods are shipped from the borrower's locale to the U. S. ocean port (or airport) and further shipped great distances (and, at times, for lengthy durations) and subsequently delivered to their foreign destination. To monitor the location and to maintain a perfected security interest (control) over "export-in-process" inventory can be exceedingly difficult. For example, inventory exported to Asia out of the southeastern U.S. is frequently transported by truck, or rail, to the west coast. To be adequately perfected, a lender needs to file (UCC-1 financing statements) in virtually every state of transit as well as with the state of the port of loading. Upon delivery in the port, the issue of competing creditor claims sometimes arises and the near impossible task of obtaining lien waivers from port authorities. Then, upon loading on to a ship (or aircraft), there is an issue of maintaining a perfected security interest in the goods while in the hands of a third party common carrier and beyond the boundaries of the U.S. legal system. The lender may or may not obtain a secured position via a negotiable bill of lading and, even with the latter, it is difficult in many overseas ports to effectively control and monitor the disposition of the goods upon their unloading (and at the mercy of a foreign legal system). With regards to foreign receivables, these invoices not only present the normal commercial credit risks as do domestic invoices but carry the added concern of political risk and currency inconvertability which may impede the buyer's payment of an invoice (as well as very distinct barriers for legal remedies in the event of invoice non-payment). Therefore, the comparatively low value of the collateral is the key cornerstone for requiring the guaranty rate at 90%.

It is the firm opinion of the Bankers' Association for Foreign Trade that a guaranty as low as 75% will negatively impact the credit decision process within banks and lead to the declination of export small business requests. For cases that are approved, the credit underwriting will be much tighter and interest cost undoubtedly higher. The net effect will be to reduce the availability of export finance to the small business sector and, that which is funded with the support of the governmental programs, will be on stricter terms and at higher cost.

Thank you for this opportunity to add to my comments and testimony of September 7th. I would like to conclude with a reflection on the historical perspective on the federal government's efforts regarding the fostering and support of export working capital finance. For some years now, there have been many people laboring behind the scenes to develop a meaningful small business export program. The task has not been an easy one. Banks are not comfortable with the added risks that selling internationally entails. Furthermore, simply making smaller loans strains a bank's efficiency and profit margins (yet export finance loans typically require more overhead for expertise and added monitoring). Numerous individuals with the SBA, Eximbank and with many commercial banks throughout the country are dedicated to support *quality* export growth from the small business sector, for which finance is a cornerstone. A lot of hard work and compromise led to the watershed event of the harmonized working capital program of 1994 between the SBA and Eximbank. As you know, early indications are that the program is well received by both the banking and the export communities. I appeal to you and others on the committee for common sense; sense to leave what finally seems to be a workable program alone (at least until more time has elapsed to better judge its effect).

As an industry, we feel that we have finally developed a program that has the potential to truly make an impact on the growth and development of the small business exports. We urge you to "not pull the rug out from under us" at this sensitive juncture and to leave what appears to be a working program "as is". Rather, we recommend a thorough assessment and analysis of the EWCGP program after a 36 month period. Including the analysis of what is the minimum guaranty percentage needed for an effective program (along with an evaluation of all other terms and parameters of the program).

Thank you again for your interest and deliberation of this mater.

With best regards, I am

Very truly yours,

William C. Cummins
Group Vice President
and
Co-Chairman, Small Business
Export Finance Committee
Bankers' Association for Foreign
Trade

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August 31, 1995

The Honorable Donald A. Manzullo
Chairman, Procurement, Exports and Business Opportunities
U. S. House of Representatives

Dear Representative Manzullo:

**RE: H.R.2150 and Senate Bill S.895 —
REDUCTION OF SMALL BUSINESS ADMINISTRATION GUARANTEE RATE**

I am a member of the Advisory Committee of the Export-Import Bank of the United States ["Ex-Im Bank"], representing small business, particularly in the Kansas and Missouri areas. I am also a small exporter operating in Overland Park, Kansas and El Paso, Texas.

It has come to the attention of other small exporters and me that the above two bills propose to reduce the Small Business Administration ["SBA"] Guarantee Rate from 90% to 75% - 80%. Included in this reduction, as the bills are currently written, would be a corresponding reduction in the current guarantee percentage of 90% under the SBA Export Working Capital Guarantee Program.

For the SBA, the Export Working Capital Guarantee Program ["EWCGP"] is a special subset of the 7(A) program that relies on foreign receivables and inventory destined for export sales, while the remainder of the 7(A) program is concerned with domestic lending. The SBA's EWCGP is a part of the "harmonization" program with the Small Exporter Working Capital Guarantee Program of Ex-Im Bank. Applicants' requests are processed by the SBA if the loan guarantee amounts are less than $750,000 and are "SBA qualified" businesses, whereas Ex-Im Bank's program is utilized for qualified guarantee amounts in excess of $750,000.

Over the past year, both Ex-Im Bank and SBA have devoted considerable resources to provide a harmonized program that offers a meaningful product to small and medium-sized companies which require financial assistance to grow their export business. The current legislation, as proposed, will hurt small business and small to medium-sized exporters who rely on Ex-Im Bank/SBA Working Capital Guarantee assistance in financing their export transactions. The experience in this first year of "harmonization" operations is very positive. In Fiscal Year 1995 to date, the SBA has approved 132 transactions worth $44.3 million, as compared to FY 1994 when 77 transactions worth $27.4 million were approved.

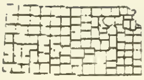
The Honorable Donald A. Manzullo
Chairman, Procurement, Exports and Business Opportunities
U. S. House of Representatives
August 31, 1995
Page 2

In FY 1995 to date, Ex-Im Bank has approved 147 transactions worth $241 million and they anticipate close to $300 million by the end of the fiscal year. In FY 1994, Ex-Im approved 164 transactions worth $186 million.

As part of legislation to decrease the guarantee rate for the 7(A) loan programs, the House Small Business Committee marked up H.R.2150 on August 4th to lower the guarantee rate to 80% for loans of up to $100,000 and 75% for loans above $100,000. The ranking minority member, John LaFalce, offered an amendment allowing the SBA to provide a 90% guarantee for a revolving line of credit for <u>export</u> purposes with a maximum term of three (3) years, regardless of the amount of the loan.

The House Small Business Subcommittees on Government Programs and Procurement, Exports and Business Opportunities have scheduled a joint hearing on Thursday, September 7th at 10:00 a.m. to examine closely the Export-Import Bank's partnership with the SBA and to review Mr. LeFalce's amendment. **<u>Any reduction in cover of the export working capital guarantee program, whether through SBA or Ex-Im Bank will seriously undermine the Government's stated goal of increasing small to medium business exports.</u>**

As a small business owner and employer of 275 people, I can represent to you that 20 jobs are export dependent. Without the Small Business Export Guarantee provided to me, I would not have invested the necessary capital to develop my export business. The data which follows may help to dimension the significance of this bill without the amendment, and, therefore, its critical importance to small business exporters:



| | KANSAS | MISSOURI |
|---|---|---|
| **Total 1994 Exports** | \$5.11 Billion | \$5 603 Billion |
| **Non-Agricultural Exports 1994** | \$2.86 Billion | \$4.23 Billion |
| **Approximate Number of Exporters** | 2,500 | 3,500 |
| **Approximate Number of Small Business Exporters (90%)** | 2,250 | 3,150 |
| **Approximate Number of Export Jobs** | 110,000 | 125,000 |

**As a member of the Ex-Im Bank Advisory Committee, I feel a responsibility to assist in the <u>continuing</u> efforts to make small business exporters aware of these programs to help grow their export business. In conjunction with the University of Missouri-Kansas City, I am presenting to small and midsize exporters a trade finance workshop which will include the Working Capital Guarantee Programs of Ex-Im Bank/SBA. 77 area exporting companies — representing 5-6,000 employees — have requested space. The need is obvious!**

The Honorable Donald A. Manzullo
Chairman, Procurement, Exports and Business Opportunities
U S. House of Representatives
August 31, 1995
Page 4

I look forward to your support in continuing the Working Capital Guarantee Program on its current level through the SBA and Ex-Im Bank. Please contact me with any questions.

Sincerely yours,

Robert E. Duncan
President

MARNICO CARPET MILLS INC.
P.O. BOX 2726
DALTON, GEORGIA 30722-2726
U.S.A.

August 30, 1995

Rep. Donald Manzullo
Chairman Subcommittee for Procurement, Exports, and Business Opportunites.
Washington D.C.

Fax: 1-202-2258950

I have been made aware of a hearing of the Small Business Committee of the Senate to review the Small Business Lending Enhancement Act of 1995(S-895 & HO 2150). In particular, I am concerned about a provision to reduce the maximum guaranty coverage under the SBA's Export Working Capital program from the current 90% to 75%.

As a small business owner that exports 100% of our sales, I am very concerned about the effect that this provision will have. Throughout the past ten years, my company has been able to survive in the export market, thanks to an Export Working Capital Revolving Line of Credit guaranteed by the U.S. Small Business Administration, currently renewed under Loan Number EWCP 8525923003 BIR. Without this Guaranty, our commercial bank would not have provided the funds necessary to compete in the international market.

We would not have been able to withstand the usual ups and downs of the international market without the support of the SBA. If one has a unique product to offer, then terms and pricing are easy to set, but if one is competing with other nations, then price, service, quality, and financing are very important. Our concern has to do with the disposition of commercial banks to extend credit facilities if the coverage falls below 90%. Even in the event that we find a commercial bank that would extend the credit facility under this lower coverage, I believe that the financing cost due to the increased risk to the commercial bank, would affect our competitive position in the international market.

Without this credit facility, our company would cease to exist. Before the above legislation is finalized, it is imperative that the Senate Small Business Committee understands the importance of the SBA's Export Guaranty Program to offer 90% (not 75%) in order to assure adequate availability of loans for small business exporters.

Sincerely,
MARNICO CARPET MILLS INC.

Bruce Lacle
PRESIDENT

cc: Phillip Eskelar- Staff Director

TELEPHONE (706) 277-1140 MANUFACTURERS AND EXPORTERS TELEX: 271473 MARNICO
FAX: (706) 277-9023

NAGGL

The National Association of
Government Guaranteed
Lenders, Inc.

September 6, 1995

The Honorable Jan Meyers
Chairwoman
House Small Business Committee
2361 Rayburn House Office Building
Washington, DC 20515

RE: SBA Export Working Capital Loan Program

Dear Mrs. Meyers:

The members of the National Association of Government Guaranteed Lenders want to thank you for your support of the Small Business Administration's 7(a) loan program. This program provides a vital access to capital that many small businesses would not otherwise have. As you know this has been a difficult year for the 7(a) program as small business loan demand has far outpaced the supply of funds available. The legislation that has passed your Committee, and the similar legislation that has passed the Senate, will help correct this problem for the next fiscal year.

One of the features the industry likes about both bills is that the guarantee percentage structure is simple and easy to understand. Loans of $100,000 or less will have an 80% guarantee, and loans over $100,000 will have a 75% guarantee, up to the $750,000 maximum guarantee. NAGGL supports this structure, and we believe, for consistency and ease of operation, all 7(a) loan programs should follow this new guarantee structure, including the export working capital loan program (EWCLP).

The EWCLP has had very little usage even though it has had the highest guarantee percentage available from the SBA. Clearly, a 90% guarantee is not what determines whether a lender will or will not participate in the EWCLP. In August, NAGGL staff polled several lenders who have used or intend to use the EWCLP. The responses we received were that it was not the guarantee percentage that was the deciding factor, but rather the knowledge of the program by the lender, the knowledge of the program by the SBA loan officer, the ease of utilizing the program, and was there another loan program that better meets the customer needs (e.g. faster application response time).

An excellent example of this is the LowDoc program. Loans of $155,000 or less have carried 90% guarantees for quite some time. It was not until the SBA streamlined the application process did loan volume significantly increase. Earlier this year, we surveyed NAGGL members to see if our members would continue to participate in the LowDoc program at less than a 90% guarantee. The overwhelming response was yes, they would continue to participate.

Rather than focus on the guarantee percentage, we believe SBA should focus attention to the EWCLP by better training of their loan officers and participating lenders, improving their marketing of the program, and by streamlining the loan application process.

Sincerely,

Anthony R. Wilkinson

Anthony R. Wilkinson
President & CEO

Post Office Box 332 • Stillwater, Oklahoma 74076 • 405/377-4022 • FAX 405/377-3931

BANKERS' ASSOCIATION FOR FOREIGN TRADE

2121 K Street, N.W., Suite 701
Washington, D.C. 20037

BAFT

Tele (202) 452-0952
Fax (202) 452-0959

**MEMORANDUM**

September 14, 1995

Memorandum for: Phil Eskeland

Subject: HR2150

Dear Phil:

As you know, at the joint House Subcommittee hearings on September 7, Chairman Manzullo introduced a letter from Mr. Anthony Wilkinson, President of the National Association of Government Guaranteed Lenders(NAGGL) as evidence that a reduction in the guaranty portion of the SBA's WCGP would not have a material effect on these export transactions. In response, we sent a letter to Wilkinson(attached) asking him to reconsider his position. The basis for our request was that "trade financing lending is much different ......from the financing typically extended by the membership of NAGGL." In short, by virtue of their ongoing business, NAGGL is not an authoritative source with respect to the actual impact of the proposed reduction.

Given this dichotomy, my personal view is that NAGGL saw our testimony as an effort to block rather than simply amend HR2150 and its companion legislation in the Senate. I hope the above is helpful to you and Chairman Manzullo.

Thanks again for meeting with me prior to the hearing; I appreciate the time you and Laurie took and look forward to working with you again.

Regards,

Leigh F. Weber

Leigh F. Weber
Deputy Director

**BANKERS' ASSOCIATION FOR FOREIGN TRADE**
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September 12, 1995

Mr. Anthony R. Wilkinson
President & CEO
National Association of Government Guaranteed Lenders, Inc.
P.O. Box 332
Stillwater, Oklahoma 74076

Dear Mr. Wilkinson:

This letter is regarding SBA's Working Capital Guarantee Program (WCGP) and the effect of the passage of the Small Business Credit Efficiency Act of 1995 (HR2150,S 8/95). We are in receipt of a copy of your September 6 letter to the Honorable Jan Myers, Chairman of the House Small Business Committee concerning this legislation and the reduction of the guaranty in SBA's (WCGP) from 90% to 80% in cases of loans less than $100,000 and 75% for loans above that amount (up to a maximum of $750,000).

The Banker's Association for Foreign Trade (BAFT) believes that the reduction in the guaranty coverage of this export program will have a detrimental effect on this program at a particularly sensitive point in its history.

As you are aware, the SBA's WCGP has suffered low usage for various reasons since the program's inception in the early 1980's (as the Export Revolving Line of Credit Program). In 1994, the SBA - along with the Export-Import Bank of the United States - developed a harmonized joint program for providing a unified export working capital loan guaranty program. A key feature was uniformity in the guaranty: the SBA guaranty was increased to 90%. The Eximbank guaranty ( which had a similar but noticeably distinct program with the guaranty of 100%) was reduced to 90%. With the increased uniformity of the SBA/Eximbank programs, we are now (finally) seeing a meaningful increase in the use of these programs.

Through July of fiscal year 1995, the volume under the SBA program has almost doubled over the previous year with some 150 banks participating in the program with total guarantees of excess of $52 million. For the full '95 fiscal year, it appears likely that the loans will exceed 225 and loan volume near $100 million. We anticipate that this program could double again next fiscal year. The harmonization process with Eximbank and, most importantly, the uniformity of the guaranty coverage has led to a workable and attractive program for the U.S. commercial banks involved in trade finance.

However, those banks which are truly active in this field are very concerned that the reduction in the SBA guaranty coverage will, almost certainly, yield a precipitous decline in the usage of this program. Furthermore, should the decline be approved: the SBA program, the sister program of Exim will likely be reduced as well. Keep in mind that trade finance lending is much different from conventional term lending (as supported by the SBA) and much different from the financing typically extended by the membership of NAGGL. We typically lend against transitory collateral consisting of inventory (often work in process and inventory in transit) and acquire foreign receivables. We generally have no commercial real estate, equipment or other fixed assets on which to "hang our hat" As you might imagine, when loans of this nature do not perform as anticipated - albeit infrequently - the liquidation of the collateral usually yields a low percentage of recovery - and the guaranty becomes all important. Therefore, a comparatively high rate of guaranty coverage is most appropriate and prerequisite to a successful program.

In the judgement of those banks which are truly active in this field, this proposed reduction in the SBA guaranty coverage will yield a precipitous decline in the usage of this program. BAFT and, in particular, its Small Business Export Finance Committee, urgently requests the NAGGL reconsider its position on this important issue to those in our industry. On September 7, I testified before the Subcommittees on Government Programs and Procurement, Exports and Business Opportunities of the Committee on Small Business about the potential adverse impact of the Small Business Enhancement Act of 1994. A copy of my testimony is attached. We understand that a critical review of this issue is going to occur on or about September 12 and - if at all possible I would greatly appreciate your comment on this request as soon as possible.

We strongly feel that regardless of any further action on this provision, the legislation will be passed in the House soon. This legislation has already been approved by the House Small Business Committee and will be scheduled for a full House vote shortly. The Senate has already passed a similar bill.

I would be delighted to discuss this matter with you first hand, please feel free to call me at any time.

Thank you for your attention and interest in this matter.

Sincerely,

William C. Cummins

William C. Cummins
Co-Chairman, Small Business Export Finance Committee
Bankers' Association for Foreign Trade
Group Vice President
SouthTrust Bank of Alabama

Encl.

EXPORT-IMPORT BANK
OF THE UNITED STATES

February 27, 1996

The Honorable Donald Manzullo
US House of Representatives
Washington, DC 20515

Dear Congressman Manzullo:

Recently the Wall Street Journal carried an article regarding changes made by the Export-Import Bank of the United States (Ex-Im Bank) to its Working Capital Program. As the article points out, this program demonstrates our commitment to improve the ability of small American companies to compete in international markets.

After examining our programs and reducing paperwork requirements for small business loans, the Bank marketed its guarantee programs to small business lenders. In Fiscal Year 95, small business transactions accounted for almost 80% of our deals and 18% of their dollar volume.

The Export-Import Bank will continue to look at ways to attract more small business customers as a way to contribute to future U.S. job growth.

For your information, I have enclosed a copy of the Journal article and a press release describing the recent improvements to our Working Capitai Program. If I can provide you with additional information about these programs, please contact my office.

Sincerely,

Maria Luisa Haley
Director

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

EX-IM BANK
*JOBS THROUGH EXPORTS*

# *News Release*

FOR IMMEDIATE RELEASE
JANUARY 24, 1996
CONTACT: Linda Formella (202) 565-3200

Expands Small Business Program

## EX-IM BANK ANNOUNCES WORKING CAPITAL GUARANTEE CHANGES TO BENEFIT SMALL BUSINESS

The Export-Import Bank of the United States (Ex-Im Bank) has authorized changes to its Working Capital Guarantee Program to make it easier for small businesses to obtain working capital to produce and market U.S. products and services for export. The changes will take effect on April 1, 1996.

In a move to encourage use of the Working Capital Guarantee Program, Ex-Im Bank's Board of Directors approved several changes, including more flexible collateral requirements and expanded Delegated Authority to bring more lenders into the program.

"These are significant changes to Ex-Im Bank's Working Capital Guarantee Program that will enable more small businesses to get into exporting," said Director Maria Luisa M. Haley, whose area of responsibility is the Bank's small business policy. "In fiscal year 1995, the Bank authorized over $300 million under the Working Capital Guarantee Program. These changes will help Ex-Im Bank leverage its resources and improve customer service to small business exporters at the local level."

Changes to the Working Capital Guarantee Program include:

- Expanded Delegated Authority - An additional level of Delegated Authority, Level "AA" has been created, which will allow lenders to approve loans up to a total of $5 million per exporter, with a lender total limit of $75 million. Borrower and lender limits of the two previous lending levels have also been increased: Level "A" lenders now will be able to approve loans up to a total of $3.5 million per exporter, with a lender total limit of $50 million. Level "B" lenders now will be able to approve loans up to $2 million per exporter, with a lender total limit of $25 million.

- Delegated Authority Facility Fee Sharing - Ex-Im Bank will share its facility fee (for example, 1.50 percent of the loan amount) with Delegated Authority lenders. For all loans of $2 million and under, the lender will retain 1.25 percent and remit 0.25 percent to Ex-Im Bank. For loans over $2 million, the facility fee on the portion exceeding $2 million will be shared equally between the lender and Ex-Im Bank.

EXPORT-IMPORT BANK OF THE UNITED STATES
811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571
(800) 565-EXIM (202) 565-3946 FAX: (202) 565-3380

- **Collateral Requirements** - Ex-Im Bank has widened the range of acceptable collateral for working capital guarantees in two ways: First, costs incurred by service companies in the performance of export sales, including engineering, design, labor, and overhead expenses related to specific contracts, may now be included in the collateral base. This change will facilitate working capital loans for service industries such as engineering, environmental consulting, and architectual firms that need working capital but lack more traditional collateral such as inventory. Second, Ex-Im Bank may now customize certain loan structuring requirements on a case-by-case basis for companies whose accounts receivable are due and collectible through their foreign-based affiliates. In addition, the Bank has reduced the collateral requirement for performance guarantees from the current 50 percent to 25 percent.

In fiscal year 1995, Ex-Im Bank approved a record number of small business transactions that accounted for 78 percent of its authorizations. Working capital guarantees totaled $306 million, a 70 percent increase from the $180 million authorized in fiscal 1994.

Ex-Im Bank is an independent U.S. government agency that helps finance and promote the sale of U.S. goods and services around the world.

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(The Bank follows the *AP Stylebook*, which states that *Export-Import Bank of the United States* is the acceptable first reference and *Ex-Im Bank* is acceptable on second reference.)

B2 · THE WALL STREET JOURNAL THURSDAY, FEBRUARY 8, 1996

## ENTERPRISE

# Export-Import Bank Acts to Boost Help to Small Firms

## U.S. Agency, in Wake of Criticism, Plans to Loosen Some Regulations

By STEPHANIE N. MEHTA
*Staff Reporter of* THE WALL STREET JOURNAL

The U.S. Export-Import Bank, once assailed for neglecting small exporters, is taking new steps to help them get more loans.

The Washington-based agency, which finances and promotes U.S. exports, said it is loosening collateral requirements for its working-capital program. Companies use this loan-guarantee program to borrow money for building inventory and buying raw materials overseas. To qualify, the exporters must put up collateral that meets the bank's standards.

> Small companies, which have more-limited financial resources than big ones, have had more difficulty meeting the agency's guidelines.

### Enhancing Capability

The changes allow service companies to include certain costs, such as engineering, design and other overhead expenses, in the collateral base. Previously, collateral was measured mainly through the value of inventory. The bank also cut in half the collateral requirement for performance guarantees.

Small companies, which have more-limited financial resources than big ones, have had more difficulty meeting the agency's guidelines. They will especially benefit from the looser collateral requirements, said Maria Luisa Haley, an Ex-Im Bank director. "If you require a lower collateral base, it will enhance the financial capability of the small company," she said. The new measures go into effect April 1.

The working-capital program already has been a strong example of the agency's effort to improve its accessibility to small companies.

In the fiscal year ended Sept. 30, the program guaranteed 204 loans totaling $306 million. This compares with 155 loans totaling $180 million in the previous year.

### Meeting Criticism

Only two years ago, a number of small exporters criticized the agency for what they called the failure to pay attention to them. The Ex-Im Bank examined its programs and reduced some paperwork for small-business loans. It also marketed its guarantee programs to small-business lenders.

In the past fiscal year, small-business transactions accounted for about 80% of the deals made by the agency, and for 18% of their dollar volume, Ms. Haley said.

Even programs originally intended mainly for big corporations are now widely used by small exporters. About half of the tied-aid offers made by Ex-Im, for example, have been made on behalf of small companies. The tied-aid program, started in 1994, matches low-rate financing offered by foreign governments to help their nations' companies win sales and contracts in countries with limited cash supplies.

### China Contract

U.S.-China Industrial Exchange Inc., a small exporter, needed an Ex-Im tied-aid loan, authorized last month, to sell China more than $8 million in medical equipment. A competitor, armed with tied-aid from the Austrian government, almost won the contract. "Unless we were also able to provide some favorable-term financing, we would have lost the business," said Roberta Lipson, president of the Bethesda, Md., company.

Small companies increasingly make use of the agency's other programs. The bank offers credit insurance, which protects American exporters and their banks against defaults by foreign customers. In the past fiscal year, Ex-Im authorized $1.67 billion in such insurance to small companies, compared with $1.57 billion in fiscal 1994.

Still, Ms. Haley says the agency is going to continue to look at ways to attract new small-business customers. More small companies are exporting, she said, and the agency believes those small exporters will contribute to future U.S. job growth.